

**NIGERIA ECONOMY:  
GREEN SHOOTS OF  
RECOVERY EMERGING**





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### **Concept of Wealth Management Under Islamic Finance**

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## Think out of the box and invest today...

Over the last few months, the continuous improvements in some macroeconomic parameters gives an indication that the Nigerian Economy is on the path of recovery. The GDP contracting for two quarters consecutively, with a 3<sup>rd</sup> contraction in the horizon riding on the PMI figures inching up for the 3<sup>rd</sup> consecutive month, the headline Inflation trending downwards since January 2017, we can dare to expect the silver lining to break out soon.

The passage of 2017 budget, and Petroleum Industry Governance Bill (PIGB) by the National Assembly, the Central Bank of Nigeria continues to intervene in the foreign exchange with the opening of Investors and Exporters FX Window and stability returning to the Niger Delta with improved volumes of Crude shows a coalition of forces that will help maintain the trend further into the future.

In the same vain global growth is expected to strengthen this year has the US Federal Reserve raise interest rates in bid to hold off inflation, with further tightening expected before the end of the year. Contrarily, UK's economic growth slowed sharply during Q1:2017 as uncertainty over the Brexit continues.

Interestingly, the Nigerian equity markets sprung back to life as the market rallied from the month of April into June recording highest performance in 11 months, Likewise, the fixed income market remains attractive to investors as monetary tightening cycle continues even as the FPI flows improved and demands inched up.

In all, investments opportunities remain abound in both economic recession and economic growth. We therefore continue to temper our expectations for economic recovery while ongoing implementation of 2017 appropriation bill of N7.441trn and CBN dollar interventions further aid this recovery.

The need to maintain a well-diversified portfolio across multiple asset classes that will maximize the risk/return tradeoff cannot be emphasized as there will be short term spikes here and there across various market segments and thus the need to constantly be on our marks to take opportunities as they arise.

**Oluwaseun Adesoye**  
**MD/CEO**  
**Associated Asset Managers Limited**  
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**In all, investments opportunities remain abound in both economic recession and economic growth.**



### OUTLOOK SCENARIOS: ECONOMY

#### GROSS DOMESTIC PRODUCT (GDP)

##### Assumptions

**Baseline:** Assumptions projections based on current output growth estimates from the NBS

**Optimistic:** Improved GDP outlook as a result of the following:

- Successful implementation of approved 2017 appropriation budget
- Continuous intervention in the FX Market by Central Bank of Nigeria
- Improved investment climate and lower cost of funds enable businesses to thrive.
- Oil production and Prices averaging 1.90–2.20 mbpd and \$50-\$60 per barrel respectively
- Improved Power supply, average grid output of 4,500 - 5,000 MW to boost manufacturing activities and reduce energy costs.

**Pessimistic:** Decreased GDP outlook as a result of the following:

- Tightening monetary policy and possible delay in 2017 Budget implementation
- Decline in crude oil prices below \$44.5 per barrel representing 2017 benchmark.
- Resurgence of insecurity in oil producing states
- Rising unemployment leading to low purchasing power

#### INFLATION

##### Assumptions

**Baseline:** Assumptions based on projections based on current output growth estimates from the NBS

**Optimistic:** The case for a reduction in Inflation would occur due to the following:

- Further expansions in Manufacturing Purchasing Managers' Index (PMI)
- Sustain Foreign Exchange Intervention by CBN
- Successful completion of road construction project in various states of federation will effectively lower transportation costs.
- Sustain current drop in diesel price at N155 per litre and stability in PPMS price.

**Pessimistic:** Inflation to spike due to the following:

- Foreign exchange shortages
- Further tightening of monetary policy resulting to high cost of borrowings
- Increase in diesel and PPMS price.

#### EXCHANGE RATE

##### Assumptions

**Baseline:** Assumptions based on status quo situation.

**Optimistic:** The case for exchange rate appreciation is based on the following:

- Increase in crude oil price and increase in FX reserve.
- Import substitution i.e. domestic refining of oil
- Capital importation inflow.

**Pessimistic:** The case for exchange rate depreciation is based on the following:

- Further drop in oil price
- Capital reversals based on US Fed Interest Rate Hike
- Decline in nation's external reserve

## OUTLOOK SCENARIO: STOCK MARKET

**Strong growth: 30% probability****SCENARIO 1****World Economy & Markets**

- Rising industrial production and improvement in trans-border movement/trade flow
- Speedy expansion of World Economy driven by recovery in advanced economies.
- Further acceleration in Eurozone economic growth driven by loose financial conditions, consumer confidence improving and equity markets rallying.
- Sustained China, India and Brazil growth momentum picks up from reform efforts
- The FED raises rates according to expectation while the ECB continues to embark on government bond purchase.
- Average Crude oil price above \$60pb.
- FDI inflow to Emerging Market accelerates.

**Nigerian Economy & Markets**

- Speedy implementation of 2017 budget and boost the economy.
- Accommodative monetary policy rate
- CBN continues sale of FX to commercial banks
- Positive global growth driven by US Economy injects new vigor into the Nigeria Economy and Market.
- Sustained FX intervention reduced pressure on Naira
- Lower interest rate boost real sector.
- Projected NSE ASI returns: 30%.

**Moderate growth: 50% probability****SCENARIO 2****World Economy & Markets**

- World Economy continues at the same pace as in 2016.
- Europe and Japan see moderate pick-up in growth.
- FED further raise rates before year end. While the ECB maintains the government bond purchases.
- Disequilibrium further remains in the crude oil market
- Average crude oil price trading at \$45pb.
- Geopolitical risk.
- FDI inflow to Emerging Markets moderate.

**Nigerian Economy & Markets**

- Lower interest rate slightly boost real sector.
- Slow implementation of 2017 budget fairly boosts the economy not as expected.
- Government market based policies failed
- Projected NSE ASI returns: 10%

**Slow growth: 20% probability****SCENARIO 3****World Economy & Markets**

- World Economy slows.
- FED further raised rates higher than expected
- Disequilibrium remains in the crude oil market.
- FDI Inflow to Emerging Markets moderates
- Heightened Geopolitical Risks threatens global growth

**Nigerian Economy & Markets**

- Crude oil price declines below budget benchmark of \$44.5 per barrel
- 2017 budget execution fails to boost the economy as expected.
- Niger Delta Militants disrupts oil supply
- Government adopts anti-market policies.
- Lower interest rate fails to boost economy.
- Projected NSE ASI returns: -20%



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# Section 1

**Nigeria-Economic reflation continues**

## Nigeria-Economic deflation continues

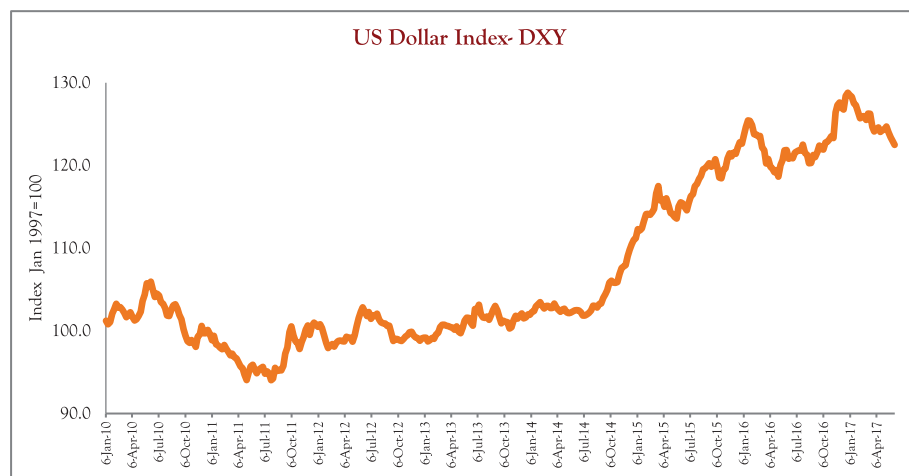
### Global Events



by: Olugbenga Olufeagba, PhD  
Associate Consultant, Markets Practice,  
Kaino Edge Consulting Limited.

The US economy grew faster than initially thought in the first quarter of 2017, with the final release besting the initial estimate of 1.2% by 20 basis points. Although the 1.4% growth rate is slower than the 2.1% recorded in the preceding quarter, it's quicker than the 1.1% growth rate of the corresponding quarter in 2016. Consumer fundamentals remain favorable, supported by improved household balance sheets, a robust job market, rising incomes and a decade-low unemployment rate of 4.4%. The Services sector is also witnessing expansion across a broad range of industries, led by the financial and professional services. The much touted infrastructure spending, and personal and corporate tax cuts are expected to provide a boost to growth later in the year, though the timing and extent of the government stimulus remain shrouded in uncertainty.

The euphoria that fueled the US dollar rally after Donald Trump won the elections is all but deflated, with the dollar index (DXY) now back to levels prevailing around the time of the US Presidential election in November. The US longer-term yields have contracted, with investors now setting their sights on the possibility of the pro-growth agenda of this administration being scuttled or slowed by the series of allegations besetting the Presidency, particularly, the Russia debacle that has refused to go away. Despite the rising uncertainties, the Federal Reserve tightened policy rate by 0.25 percentage point, bringing the policy federal fund target rate to between 1% and 1.25%, with further tightening expected before the end of the year.



We, however, expect the Federal Reserve to continue to evaluate both growth and inflation dynamics in-between hikes to ensure they are both in consonance with the assumptions driving the path to rates normalization. With global growth picking up, and the US' expected growth advantage narrowing, the yield differential between US and other low yield Advanced Economies

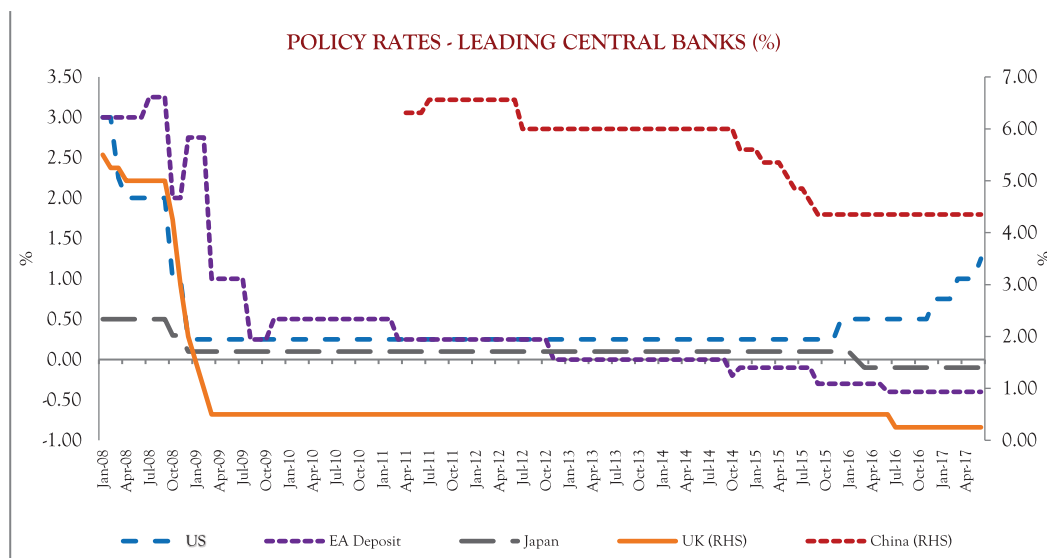
is also expected to contract as the other central banks move away from extreme policy accommodation.

The Eurozone GDP quickened by 0.5% in Q1 2017, making it the 16th consecutive quarter of expansion. There are indications that further acceleration lies ahead, with financial conditions remaining very loose, consumer confidence improving broadly across member countries and equity markets rallying.

Growth in the Eurozone is also expected to be supported by receding political risks, following the Euro-supportive outcomes of the French and Dutch elections, and improving global activity, with the IMF revising 2017 projected world growth from 3.4% to 3.5%.

Barring any unforeseen shocks, we would expect the European Central Bank to begin communicating the plan towards normalization of rates later in the year. This will, however, be dependent on inflation outlook, as prices, particularly, core inflation, have refused to budge, despite the highly accommodative environment.

**The BoE is likely to refrain from raising rates since domestic inflation is subdued.**



The UK economy slowed sharply during Q1-2017, but the recently released PMI surveys show that might have rebounded, same as retail sales. We, however, believe this recovery may be temporary, with further deceleration ahead due to the headwinds that the uncertainties around the uncoupling from wider Euro Area is engendering. CPI inflation, at 2.9% y/y in May, is now a fair margin above the Bank of England's 2% inflation target, with further upside likely in the coming months, particularly from imported inflation. The BoE is likely to refrain from raising rates since domestic inflation is subdued.

The Japanese economy had a very strong start to the year, buoyed by the external sector as global recovery gains pace. Preliminary estimates show that real GDP grew by 0.5% q/q, and 1.6% y/y in the first quarter, with growth reasonably broadly-based. We expect stimulative fiscal and monetary policies will continue to support the economy through 2017. The thorny deflation period appears to be over, but price gains remain weak, and the 2% target of the BoJ seemingly farfetched. The headline inflation at 0.4% y/y, remained the same in May, as in April, while core inflation rose marginally from 0.3% y/y in April to 0.4% in May. We do not anticipate the Bank of Japan's (BoJ)

2% y/y inflation target to be met in the foreseeable future given subdued wage growth, so therefore, we expect the monetary stimulus by the BoJ to continue for the foreseeable future.

China's high frequency indicators, such as purchasing managers' indices for the manufacturing and services sectors, industrial production, and fixed asset investment, show the economy losing some steam in May, nevertheless, it is still well positioned to meet the official real GDP growth target of around 6.5% in 2017. Investor concerns regarding China's economic growth deceleration and increasing leverage have reemerged. Accordingly, Moody's downgraded China's sovereign credit rating by one notch to "A1" on May 24, and assigned a "stable" outlook to the new rating. The Standard and Poor's rating of "AA-" with a "negative" outlook might also be subject to a review later in the year. Consumer price inflation continue to accelerate, from 0.9% in March to 1.2% in April and now 1.5% y/y in May. This trend is likely to continue for the better part of 2017 as producer prices continue to quicken.

The People's Bank of China's (PBoC) quarterly monetary policy report, published in May, highlighted the central bank's resolve at maintaining a prudent monetary policy stance, keeping liquidity stable, and focusing on the elimination of financial risks. The 7-day reverse repo rate, which can be interpreted as the PBoC's policy rate, is now 2.45%, with further tightening likely in the second half of the year.

In India, the monetary policy meeting held in June retained the repo and reverse repo rates at 6.25% and 6% respectively. We expect the monetary policy stance of the Reserve Bank of India's (RBI) to remain accommodative over the coming quarters as the inflationary pressures remain contained. In May, the headline inflation rate dropped further from 2.99% in April to 2.18%, an almost identical deceleration to the 0.82 percentage point recorded between March and April. We expect price gains to remain within the RBI's inflation band of  $4\% \pm 2\%$  y/y in the second half of the year. The Indian government is on track to roll out a nationwide Goods and Services Tax (GST) on July 1, 2017. The GST will cut businesses' transaction costs as it synchronizes state and central levies into a nation-wide sales tax. Nevertheless, the multi-tiered structure of 0%, 5%, 12%, 18%, and 28% may mitigate some of the benefits. Consequently, we expect India's real GDP growth rate in 2017 to closely mirror the 7.6% recorded in the previous year.

Politics continue to take center stage in Brazil, with President Temer charged with corruption. This hasn't only created uncertainty about the outcome of the moment, the likelihood of swift critical reforms going forward is also heavily under threat. The improving macro story, which has seen inflation ease to 3.6% in May from double digits in early 2016, and activity on the path to positive growth after more than 7% contraction over the last couple of years, may also be derailed if the gathering storm crystallizes. The Brazilian Central Bank has itself pointed out, that if reforms stall, particularly in pensions, the interest easing cycle could be curtailed, thus hurting the growth rebound. FDI flows, which has aided growth and supported its currency's rally, will likely slow in the face of uncertainty, exacerbating the Brazilian Real sell-off, with likelihood of pushing inflation higher.

**Politics continue to take center stage in Brazil, with President Temer charged with corruption.**

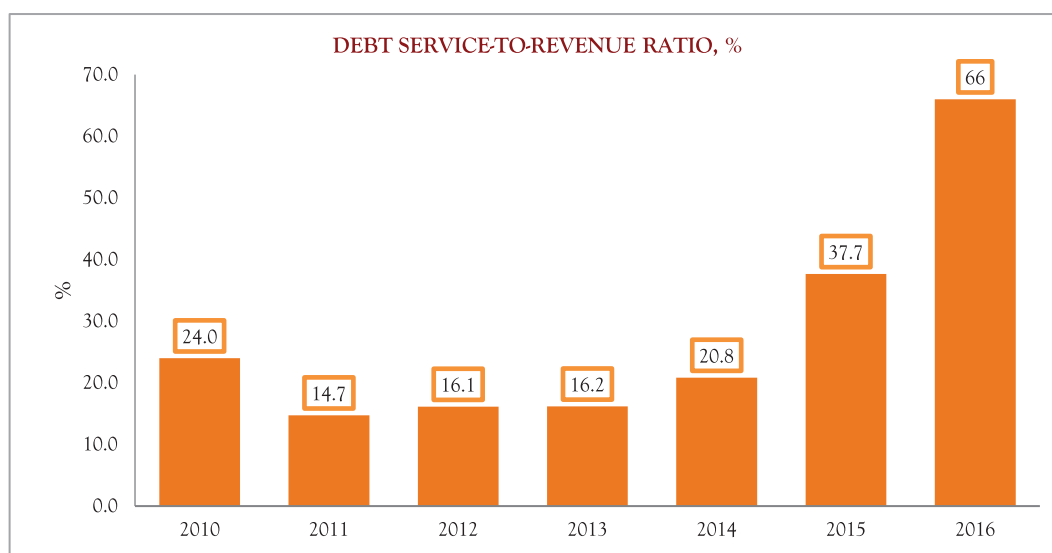
## Domestic Environment

### Fiscal and Monetary Policies

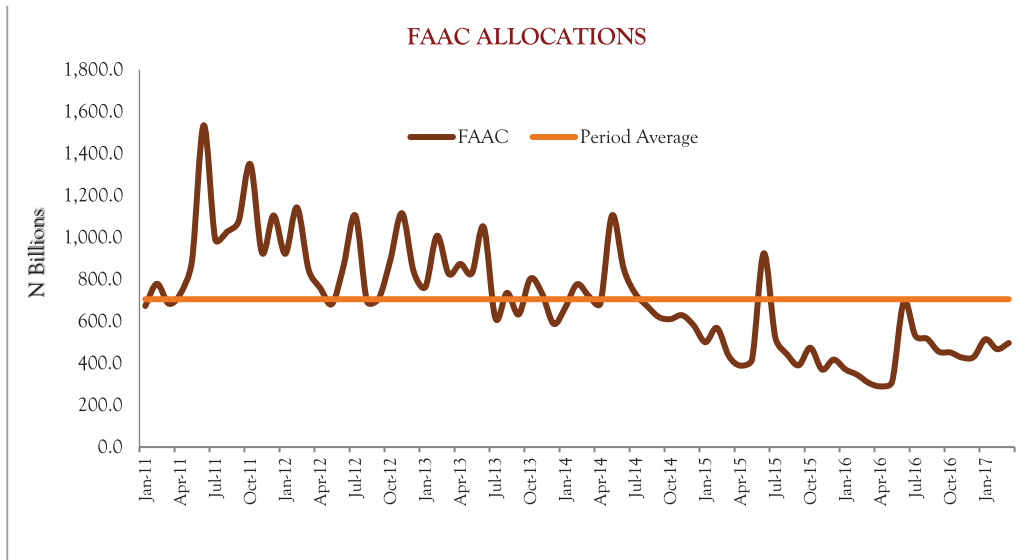
The 2017 appropriation bill of N7.441trn was finally passed into law by the National Assembly on May 11, 2017. The National Assembly as is customary to do, raised the oil benchmark price to \$44.5 per barrel from the initial \$42.5 proposed by the executive, and increased the budget by N143bn. As usual, the budgeting process in Nigeria is never devoid of drama, last year, it was the budget that went missing amidst allegations of padding and cannibalization of the appropriation, this year, it was who to sign the budget that went missing, despite the fact that we have an Acting President. Curiously, the President's spokesman informed the general populace that the President has given the Acting President permission to sign the budget. This is quite laughable, because once the substantive President handed over powers to the Vice-President to act in his stead, the powers of his office have been automatically transferred to the Acting President. In this attempt at a show of power from the President's spokesman, which was totally unnecessary, he only succeeded in exposing his ignorance about the dynamics of governance.

The National Assembly in raising the budget benchmark for crude oil to \$44.5 per barrel, increased the expected revenue of the government from N4.94trn to N5.08trn. Thankfully, crude oil price has averaged about \$50 per barrel so far this year. Hopefully in the nearest future, both the executive and legislative arms of government will see the need to have a scientific or logical method for determination of the benchmark. A further breakdown of the budget shows a split of recurrent and capital expenditures at 71%/29% respectively, with 100% of the capital expenditure to be borrowed, as the size of the deficit is interestingly the size of the capital expenditure. This gives us a deficit to revenue ratio of 46% which is becoming alarming, particularly because debt-service to revenue ratio had risen to 66% as of 2016. We seem to be laying the foundation of a macroeconomic imbalance that will crystallize sooner than later.

**Curiously, the President's spokesman informed the general populace that the President has given the Acting President permission to sign the budget.**

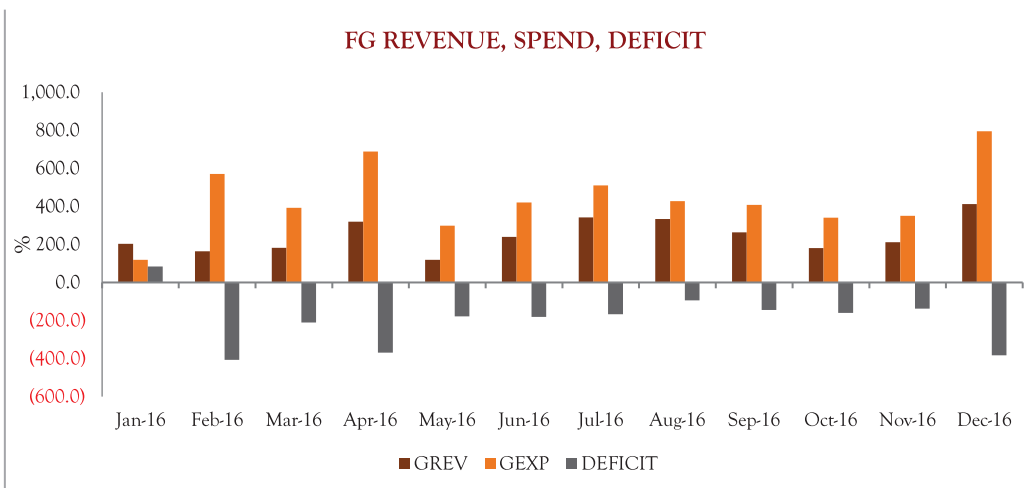


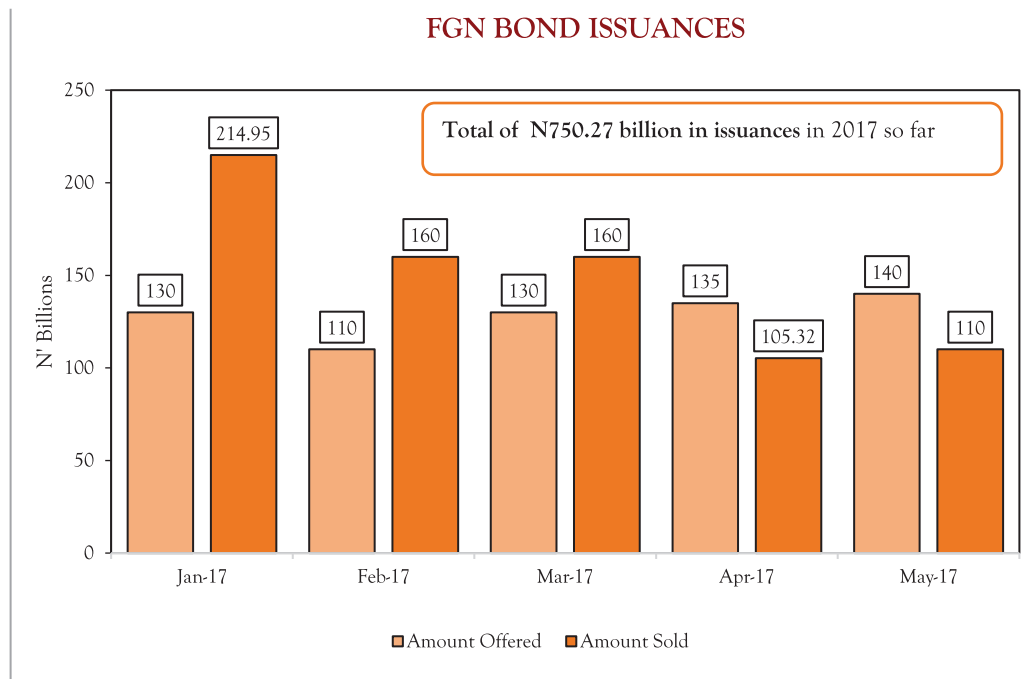
It seems the executive is bereft of ideas on how to fund investible projects, and their mantra has become borrow, borrow, borrow and more borrowing, with total disregard for collaboration with private stakeholders. We do not have a chance of borrowing our way to development, and the only viable solution is to make the business environment more conducive for investors, both domestic and foreign.



**We do not have a chance of borrowing our way to development, and the only viable solution is to make the business environment more conducive for investors, both domestic and foreign.**

Government budgeting hasn't taken cognizance of the reducing income accruing to all tiers of government, as wasteful expenditure hasn't been pruned. The current budget aiming to spend every dime made on recurrent expenditure is totally laughable.



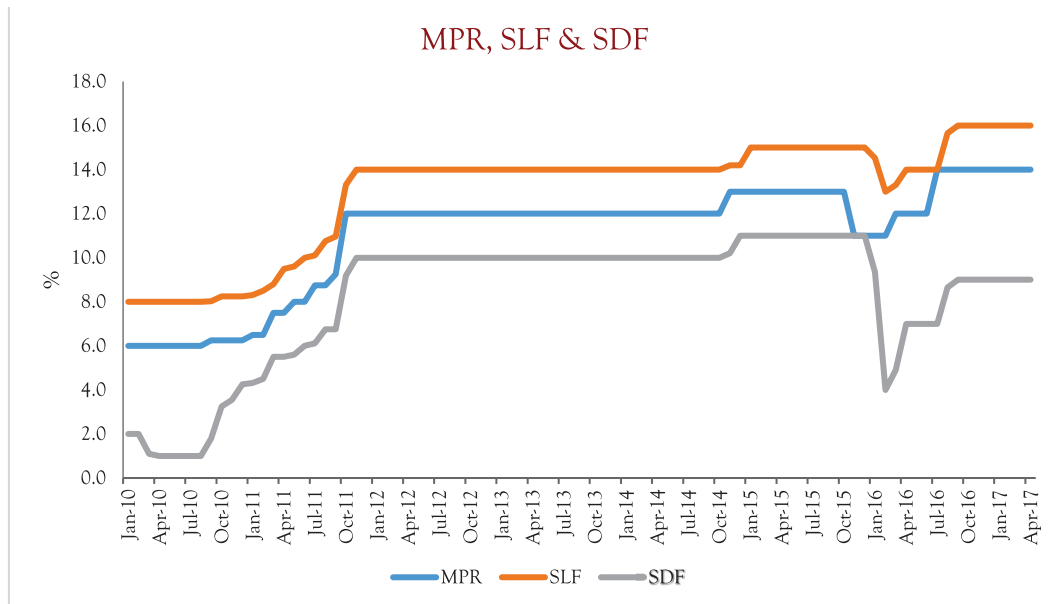


If there is any truth in the ongoing spat between the spokespersons of both chambers of the National Assembly on the one hand, and the Minister for Power, Works and Housing on the other, then it gives us a peep into the mindset of some of the people in positions of authority. In the minister's defense, he said there was no existing concession on the Lagos-Ibadan expressway. May we remind the minister that he has been in office for about 20 months, and one of his responsibilities is to devise interesting arrangements for the most judicious use of our resources. If his role is just to appropriate funds and award contracts, then it doesn't take a genius to occupy that office. Our expectation is for him to be a disruptive talent in the three ministries under his purview, and so far, in my opinion, he has disappointed a lot of people that hoped he was going to be a breath of fresh air at the center.

**May we remind the minister that he has been in office for about 20 months, and one of his responsibilities is to devise interesting arrangements for the most judicious use of our resources.**

The Monetary authorities have had better success in the outgone quarter, and exchange rate premium between the parallel and other markets, save the interbank, has all but disappeared. Also, inflation, although still higher than target, has halted its 15-month consecutive gallop, with four consecutive months of slowdown that ensued in February and is now at 16.3% from the decade high 18.7% of January 2017.

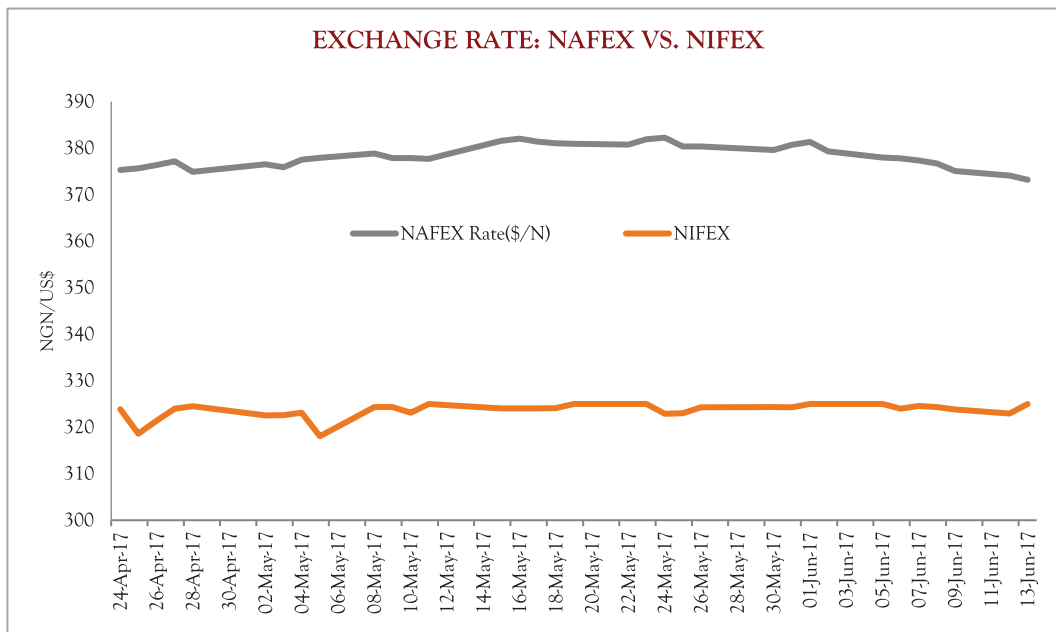
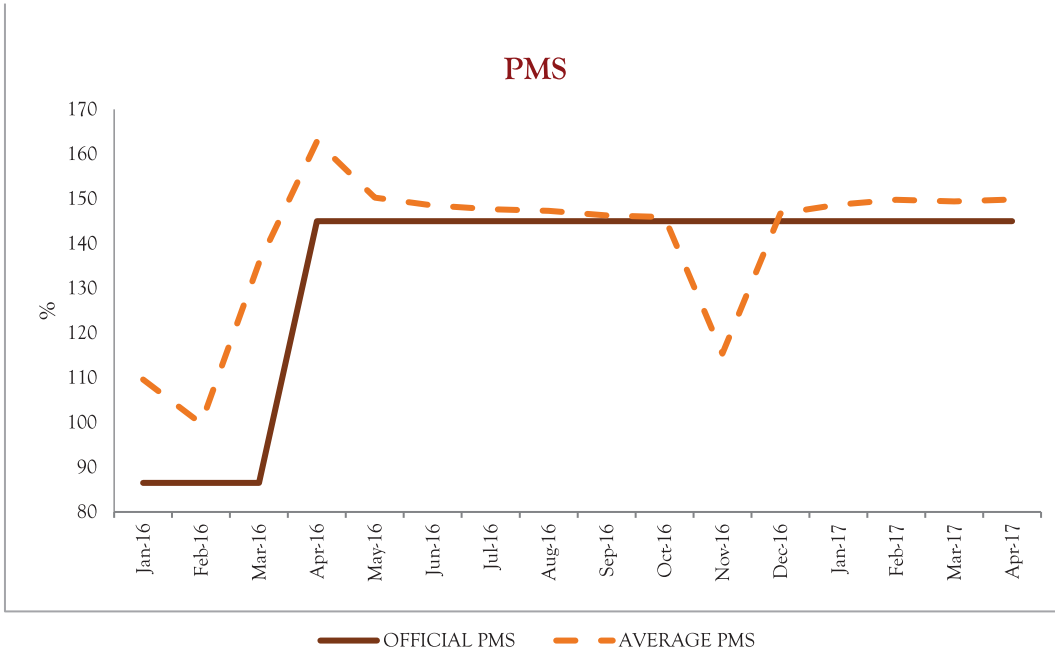
Also, for the first time in a long while, the conduct of Monetary Policy is now more consistent with the stance of Monetary Policy. Prior to now, it was common for the apex authorities to claim to be maintaining a tight monetary stance, while injecting liquidity into the system, negating the intention of monetary policy. The policy rate has remained at 14% since July 2016, and liquidity continues to be managed along



In line with the tight monetary stance of the apex bank, the broad money, M2, has eased from a year-on-year growth rate of 22.3% in July 2016 to 8.5% as at February 2017. Similarly, narrow money growth, M1, has also eased from 48.1% to 12.6% during the same period. Indeed in real terms, these are both contractions.

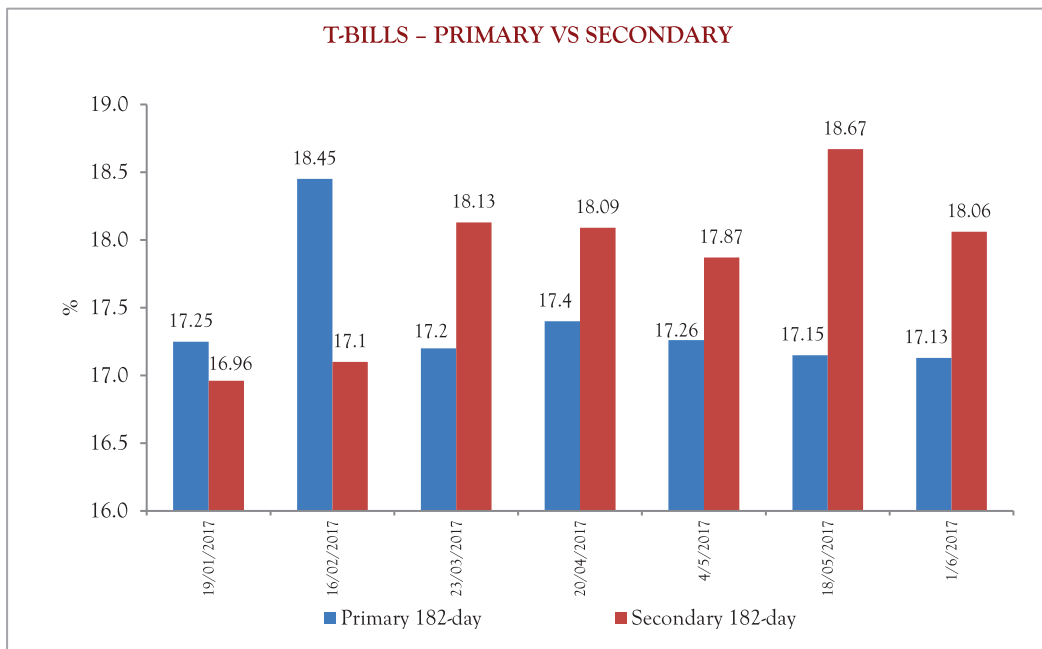
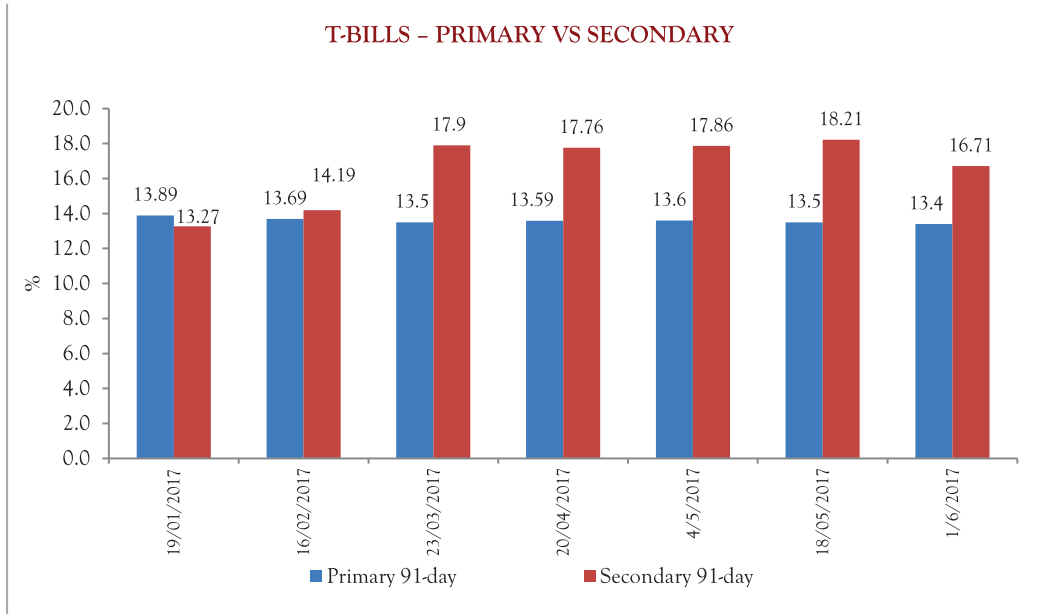


Between the Fiscal and Monetary authorities, however, there are two subsidy regimes that need to be fixed- the FX subsidy between NAFEX and NIFEX, and the official PMS price.



In our opinion, money can be saved by eliminating both subsidies, and allowing the market forces play the expected equalizing role.

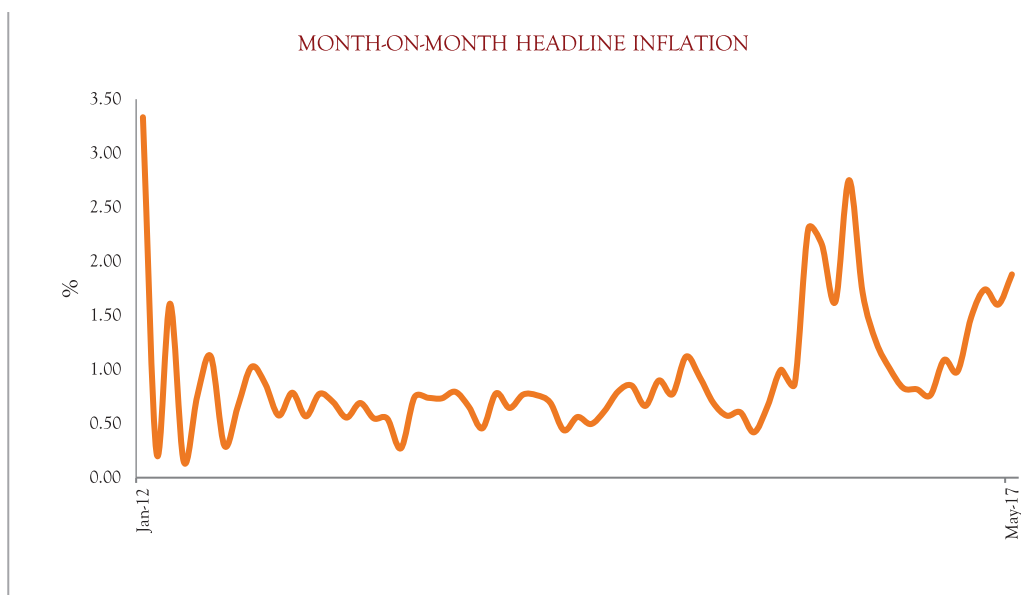
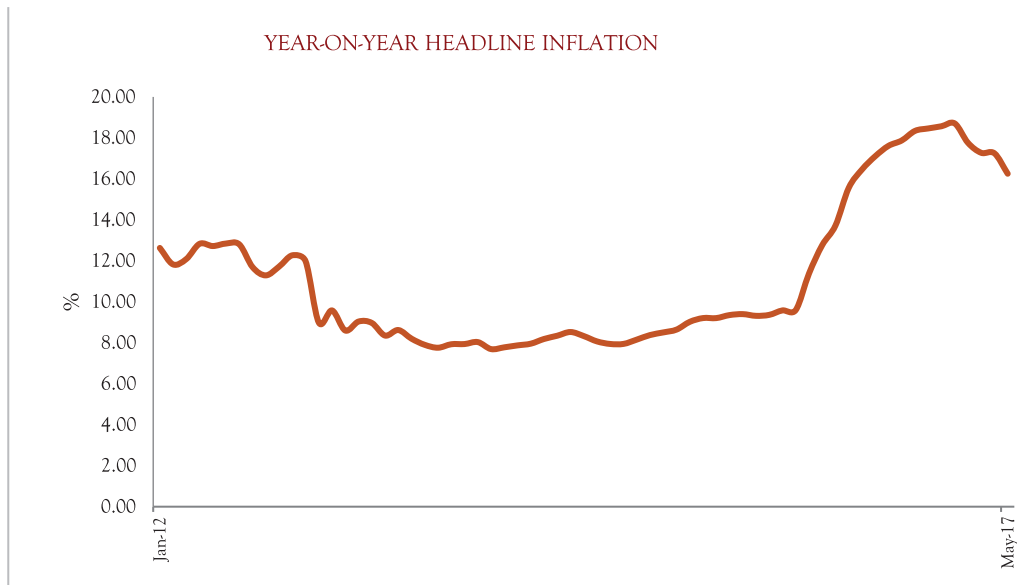
There is also an interesting happening going on in the treasury bills primary and secondary markets. Ideally, primary market yields track secondary market yields, but curiously, yields offered on new issues are on the average considerably lower than rates on the secondary market.



We can only wonder who is buying at the primary market, and if this difference won't lead to reduced demand at primary auctions.

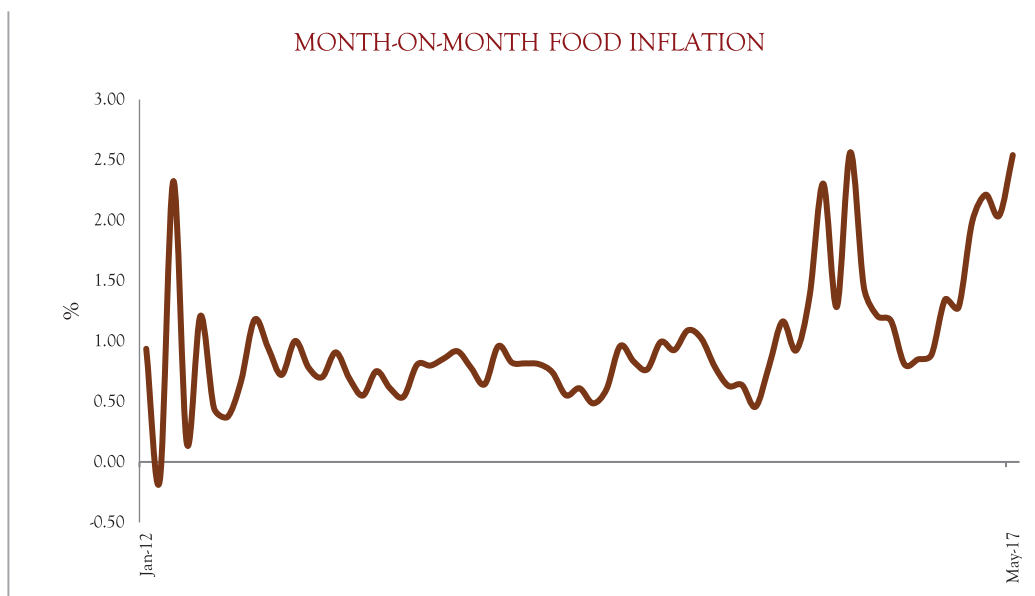
## Cost

There has been some respite in the year-on-year rate of price increase on aggregate basis, particularly due to base effect. Although the individual components, and the month-on-month series, suggest there are some underlying pressure.



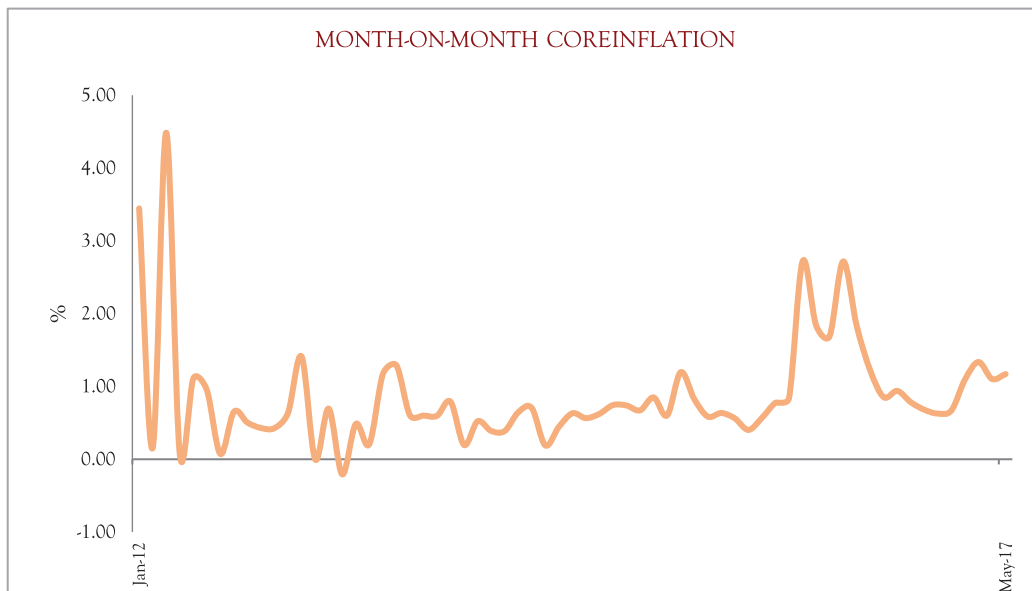
**While the headline inflation has slowed from 18.7% in January to 16.3% y/y in May, the month-on-month has increased from 1% to 1.9% during the same period, driven mainly by food as challenges to supplies on the route to market persisted.**

While the headline inflation has slowed from 18.7% in January to 16.3% y/y in May, the month-on-month has increased from 1% to 1.9% during the same period, driven mainly by food as challenges to supplies on the route to market persisted. We, however, expect the commencement of the harvest season to moderate food prices. The food sub-index defied the y/y moderations of the headline and core to chart its own path, increasing from 17.8% in January to 19.3% in May.



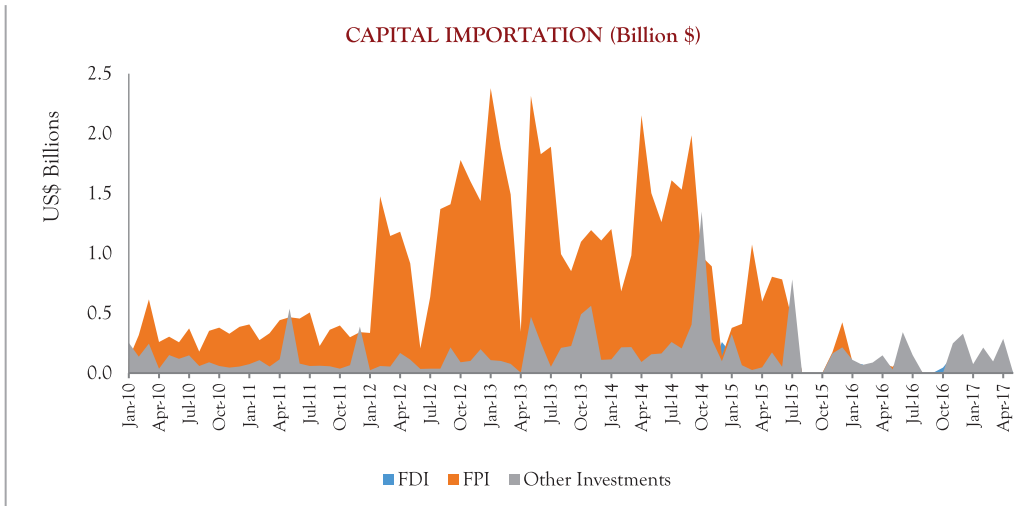
**Core inflation eased from 17.9% in January to 13% in May as prices moderated on the back of stronger naira and base effect.**

Food also quickened the fastest on month-on-month basis, increasing from 1.3% in January to 2.5% in May, 0.3 percentage point higher than the month-on-month expansion by the headline. Given that food constitutes more than 50% of the CPI basket, the other components of the basket witnessed relatively higher moderation on year-on-year basis to seize the impetus from the direction food inflation tried to dictate. Core inflation eased from 17.9% in January to 13% in May as prices moderated on the back of stronger naira and base effect.

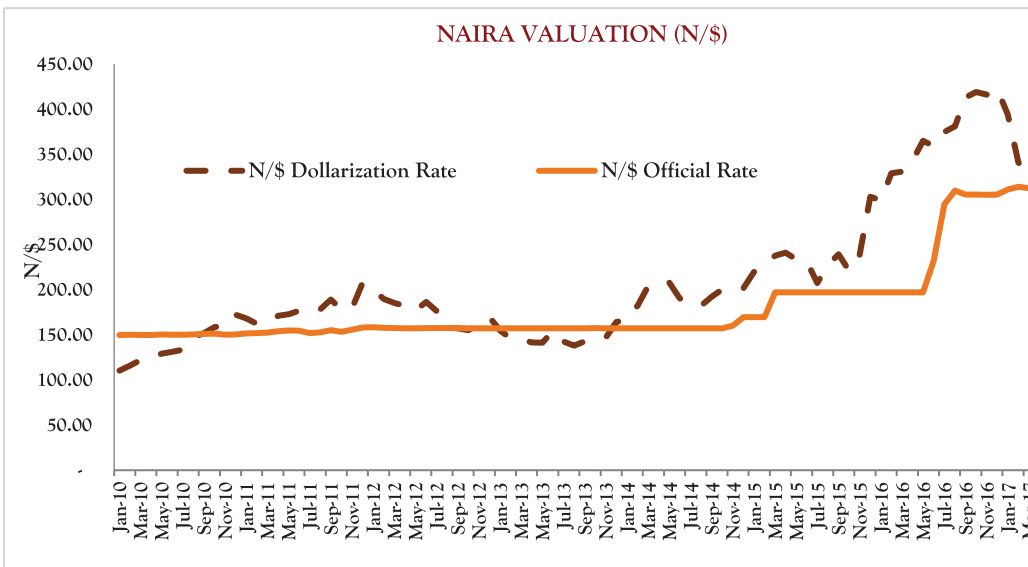


On month-on-month basis, core inflation also quickened at the slowest rate, increasing from 0.67% to 1.17% between January and May, 0.4 percentage point slower than headline inflation.

On the foreign exchange side, the central bank continues to be the primary source of FX in the market, and with current prices of crude oil appearing to be the new normal, we wonder for how long this success can be sustained. Foreign portfolio investors seem to be gradually testing the waters to see how deep the FX market is, but it is still a far cry from the high of \$2.3bn in May 2013, when they dominated activities on our financial markets, and their inflows made a considerable addition to the FX liquidity, to the \$118mn recorded in April 2017. Where the pendulum swings will be dependent on the transparent management, and price discovery in the NAFEX window.

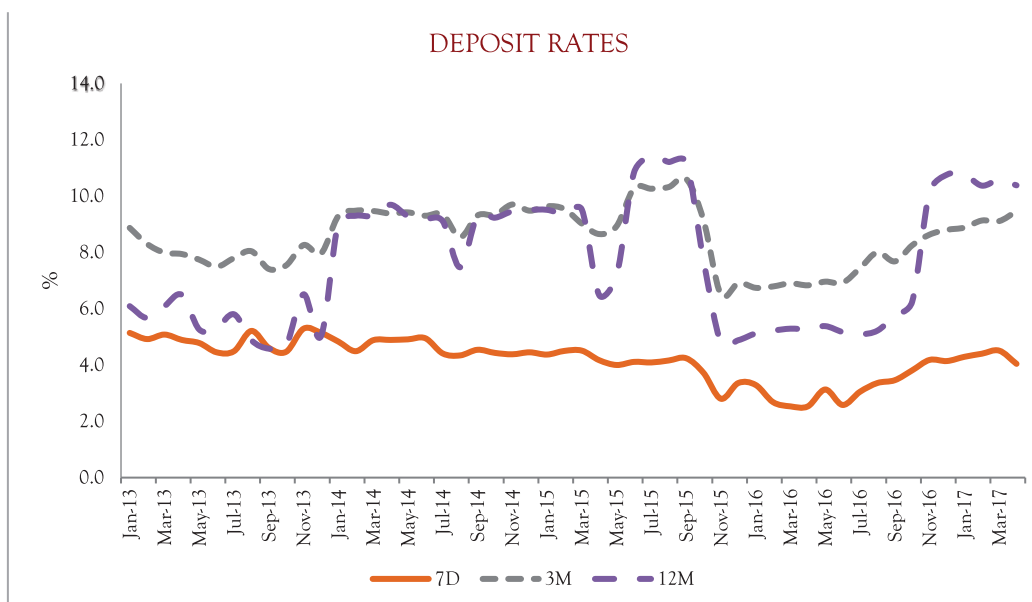
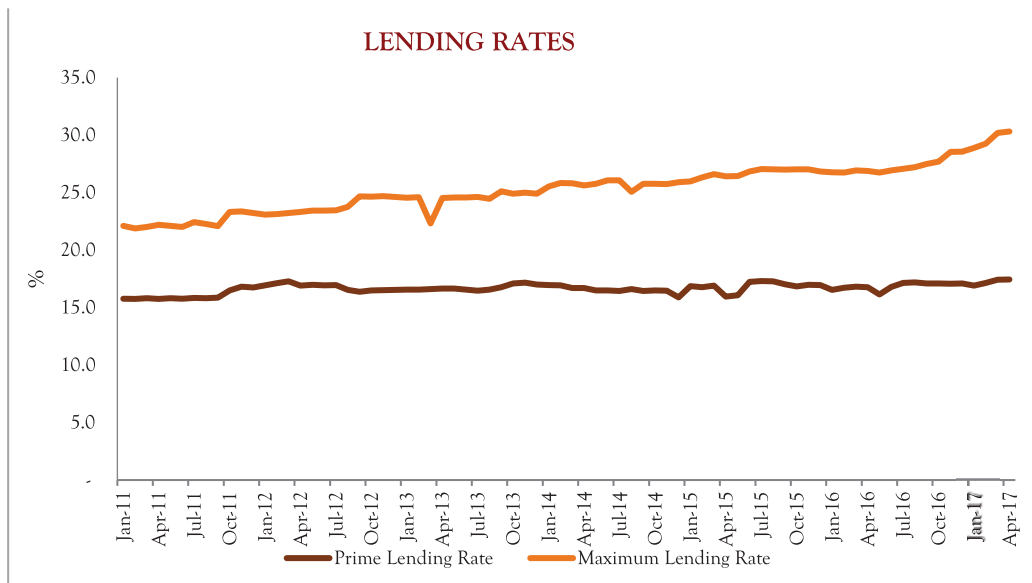


**The dollarization rate also suggests the exchange rate of the Naira to the USD should be about N340/\$.**



Although rates have converged on a number of markets, and naira has strengthened from about N500/\$ to N365/\$ at the parallel market, there is still a decent subsidy between the interbank and the other markets. Since goods and services are priced on the back of parallel market rates, we believe the subsidy between NIFEX and NAFEX is unnecessary, with the NAFEX and parallel markets reflecting truer value of the Naira. The dollarization rate also suggests the exchange rate of the Naira to the USD should be about N340/\$.

The burden of the cost of funds continues to be borne significantly by the risky borrowers. Although that is the expectation, more so in a tight economic environment due to contracting activity impinging on the ability of borrowers to pay back, few consumers and businesses can survive the burden of 30% interest rate which excludes administrative charges.



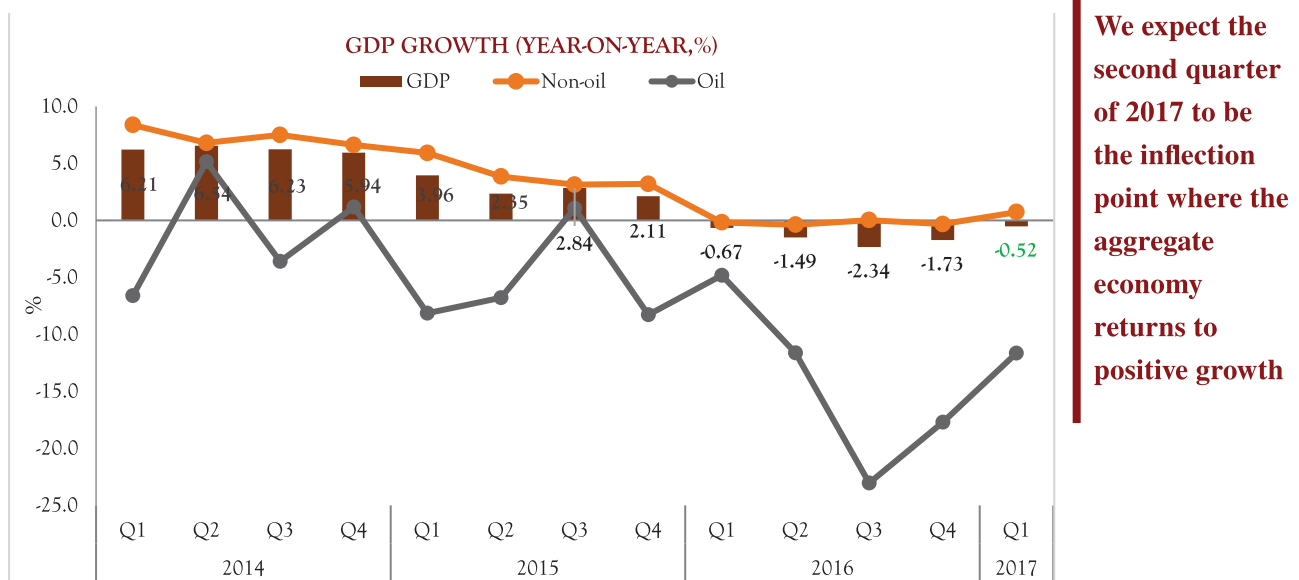
Deposit rates have also trended up, but still reasonably lower than inflation rate, which suggests value erosion on deposits.

The prime borrowers, on the other hand, are being paid to borrow. Cost of funds averaged 17.2% between January and April, whereas, inflation averaged 17.75% during the same period, so indeed, in real terms, cost of funds for the prime borrowers was negative. Deposit rates have also trended up, but still reasonably lower than inflation rate, which suggests value erosion on deposits.

Activity

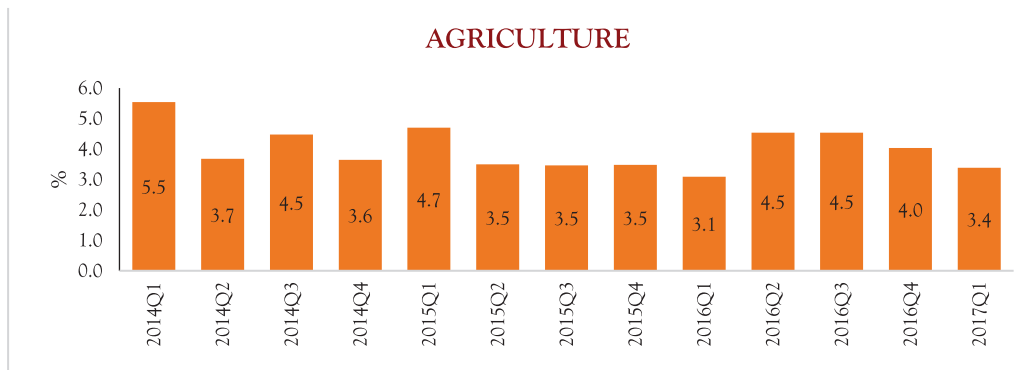
GDP Estimates Validate Improving Economic Conditions

There are signs that the Nigerian economy is recovering from its first recession (two consecutive quarters of contraction) in 29 years, and first annual contraction in 25 years. It took inertia on the part of the executive to engender an unnecessary contraction in the economy. The growth numbers released for Q1 2017, however, shows the economy is on the path to recovery. The non-oil sector is back in positive territory, albeit at a marginal 0.72% growth, with the oil sector also improving from a contraction of 17.7% in the last quarter of 2016 to negative 11.64% in the first quarter of 2017, leaving aggregate growth in negative 0.52%.



We expect the second quarter of 2017 to be the inflection point where the aggregate economy returns to positive growth. Oil production numbers have improved as the restiveness that characterised the oil producing region in the Q1 of 2017 has all but ceased, exchange rate has been relatively stable, with the naira gaining about 30% on the parallel market, and inflation has moderated. The government has also continued the implementation of the 2016 budget, particularly, the capital projects. All these would have given the much needed fillip to expansion in activity. The Agriculture sector deserves to be named a priority sector, as the only main sector that never contracted during the 5 consecutive negative growth in the aggregate economy.

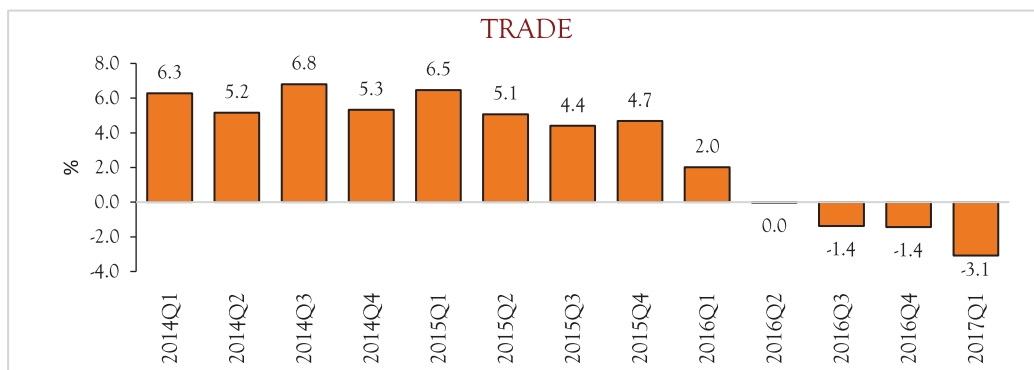




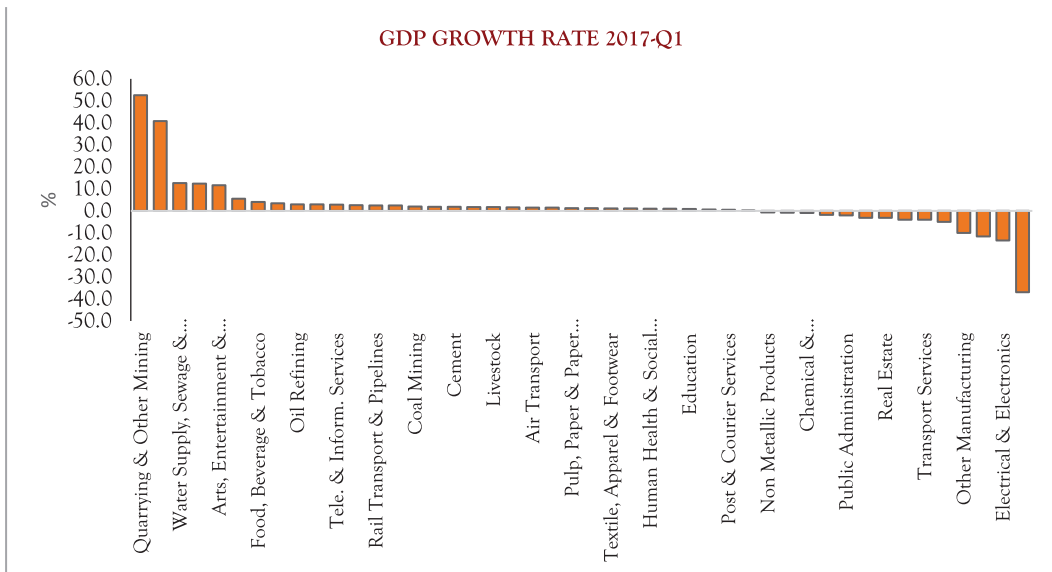
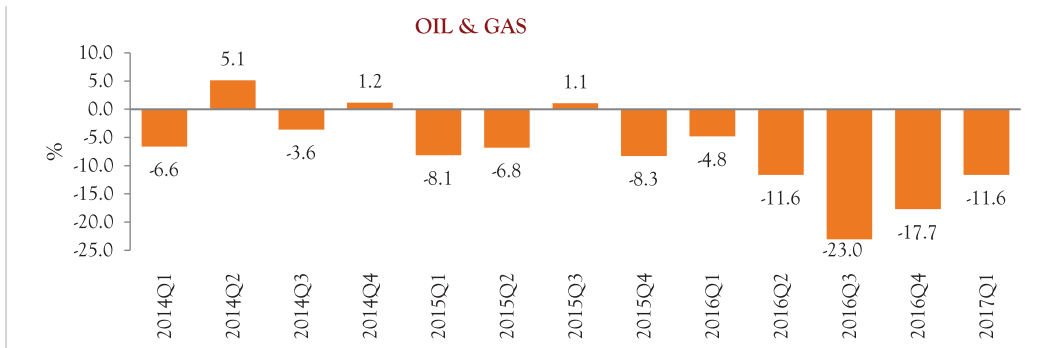
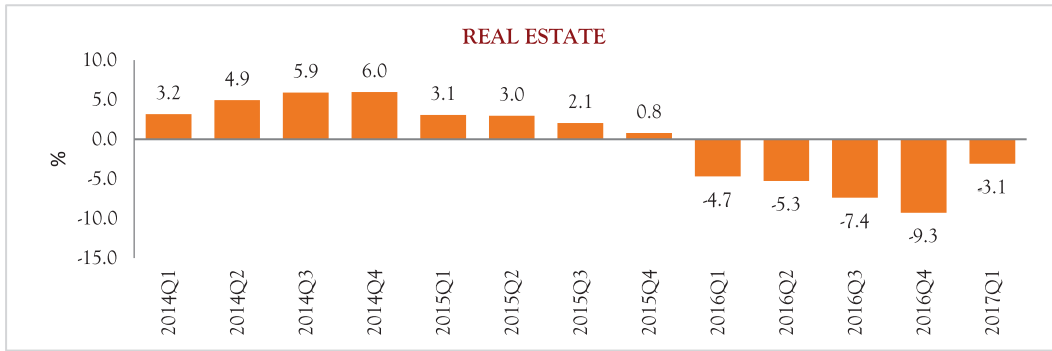
The manufacturing sector has also emerged from 4 consecutive quarters of contraction with a growth of 1.4%. Although this is paltry compared to the double digits we are used to in the sector, it is a significant step, as it suggests the problem around input difficulty has been contained, and consumer demand has improved.



**The Real Estate sector also improved from negative 9.3% growth to negative 3.1%.**



The Trade sector recorded its fastest decline yet since the aggregated economy entered into recess, contracting by 3.1% in Q1 of 2017 compared to 1.4% in the two preceding quarters. This might not be unconnected with the continued prioritization of value additional sectors in the drive to make Nigeria less dependent on other countries for goods and services that can be accessed in Nigeria. The Real Estate sector also improved from negative 9.3% growth to negative 3.1%. We expect this improvement to continue as systemic liquidity increases. By and large, 29 of the 43 sub-sectors expanded in Q1 of 2017.

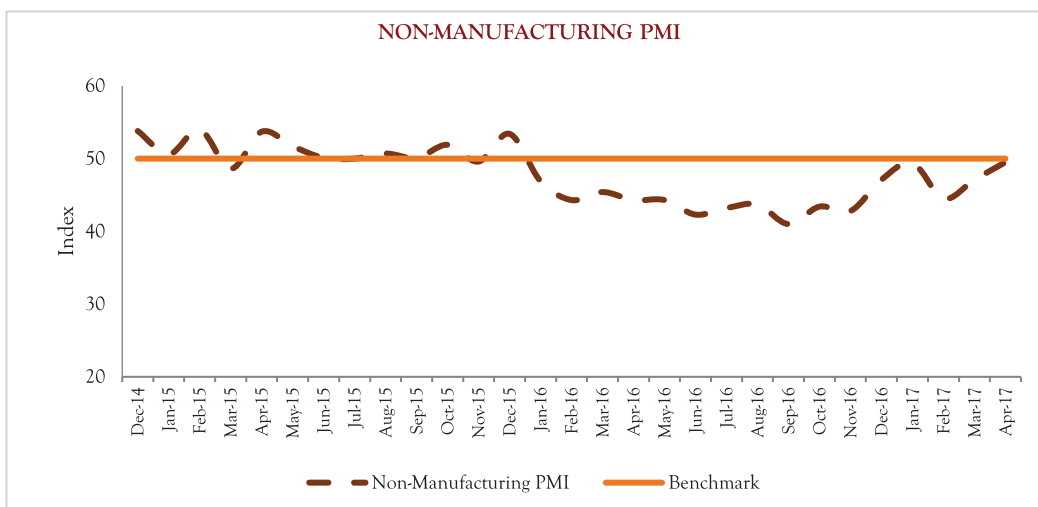
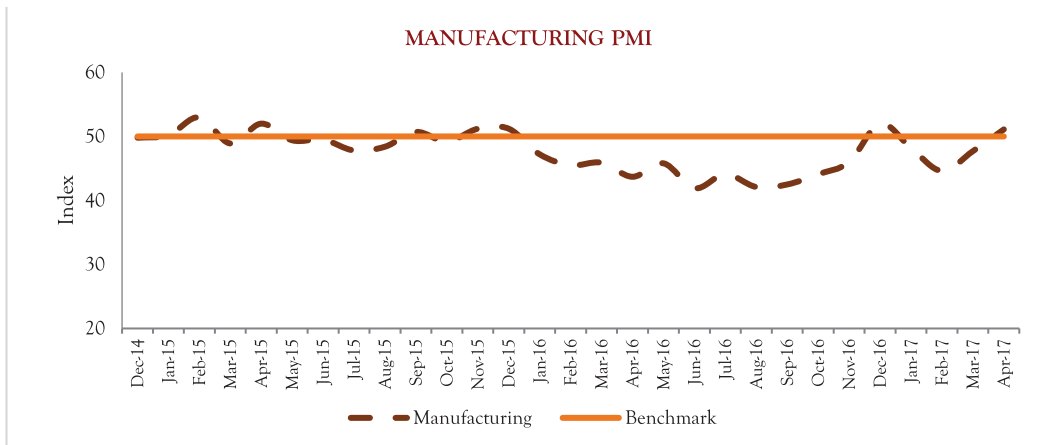


Outlook

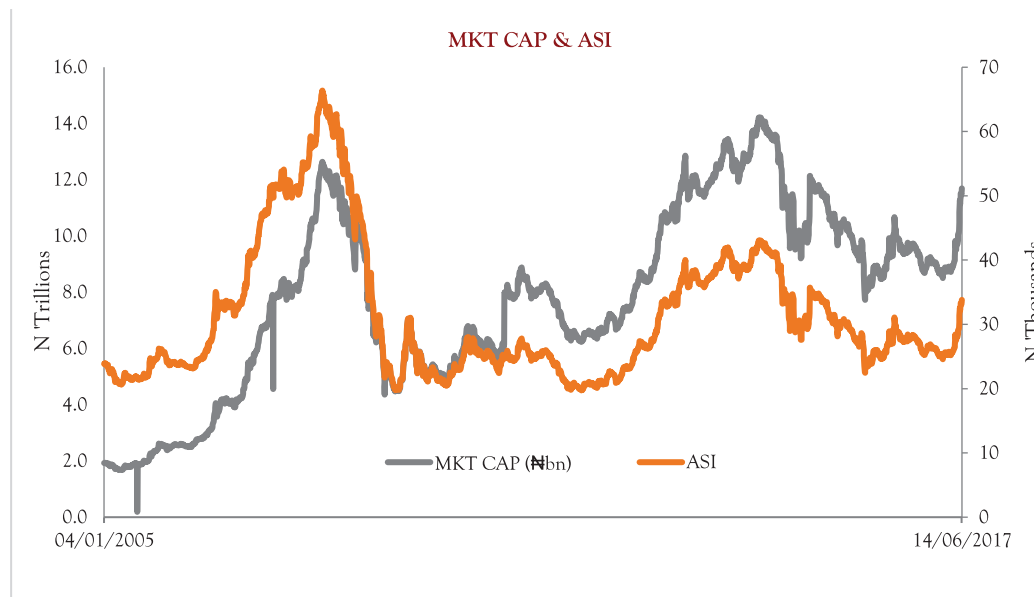
Indications from the global environment suggest there's general improvement in activity. This should be supportive of commodity prices, in particular, oil. We expect OPEC to continue to moderate production, which should see oil prices end the third quarter around current levels. Geo-political tensions across the Middle East is also expected to persist, which will be supportive of prices as well. The hawkish tone across central banks mean portfolio inflow is likely to be scarce, as the normalization of rates gathers pace in Advanced Economies.

**High frequency data in Nigeria suggest the economy is on the path to recovery.**

High frequency data in Nigeria suggest the economy is on the path to recovery. The Manufacturing PMI for April crossed into expansion territory for the first time since December 2016, and the Non-Manufacturing PMI is also on the verge of hitting the expansion point of 50 for the first time since December 2015. All these suggest Q2 was likely the inflection point, and the expansion is likely to continue in the third quarter.



The stock market has also benefitted from the general recovery in the economy as the fundamentals of many of the listed companies have improved. Our expectation is for this recovery to continue, supported by a stable and improving macroeconomic environment.



**The CAPEX-centric budget of 2017 should accelerate growth in the construction sector along with its ancillary sectors, particularly the cement industry.**

The 2017 budget has also been assented to, with the highest CAPEX appropriation in the history of Nigeria. As the government intensifies effort to bridge the gaping infrastructural gap, we expect the pressure on consumer wallets to ease, with a number of sectors in pole position to benefit.

Government policy on import substitution is already yielding fruit in the agro-processing space, and we will expect the success in agriculture to be replicated across many industries in the economy. The manufacturing sector is already looking inward for substitute input that can be sourced locally at competitive prices. The improvement in the FX supply is also expected to be supportive of the manufacturing sector, as necessary imported input become accessible. With the expansionary budget from all tiers of government, some of the cost burden will likely be transferred to the consumers, leading to increased margins for manufacturers.

*Construction* returned to positive growth in Q1 2017 after 6 consecutive quarters of negative growth. The CAPEX-centric budget of 2017 should accelerate growth in the construction sector along with its ancillary sectors, particularly the cement industry. *Distribution (Wholesale and Retail Trade)* remains in stagnation, with the contraction gathering pace in Q1 of 2017. We expect this contraction to slow as the economy grappling with over-dependence on foreign products begins to carve opportunities in the domestic space.

*The Financial Services*, in particular, the banking sector should continue to witness improved fundamentals as economic recovery gathers pace. The spate of losses due to contracting activity will continue to ease as the economic environment improves. High interest rates will be supportive of interest income, and stable FX rate and elevated oil prices will improve the condition of their exposures to manufacturing and oil and gas sectors respectively.

# Section 2

**Global Financial & Economic Outlook**

## GLOBAL GROWTH OUTLOOK

### SUMMARY OF H1: 2017 PERFORMANCE

The World Bank forecasts that global growth will strengthen to 2.7% in 2017. Amid a pickup in manufacturing and trade, rising confidence, favorable global financing conditions, and stabilizing commodity prices. However, the world economy continues to face a number of downside risks. They include increased protectionism, heightened policy uncertainty, the possibility of financial market turbulence, and, over the longer run, weaker potential growth.







In the United States, six months after the elections, the much-trumpeted fiscal stimulus plan has failed to materialize, rising concerns about the scope and timing of the initiative. The economic story remained largely intact in the Euro area, with GDP benefiting from a declining unemployment rate and a robust external sector.

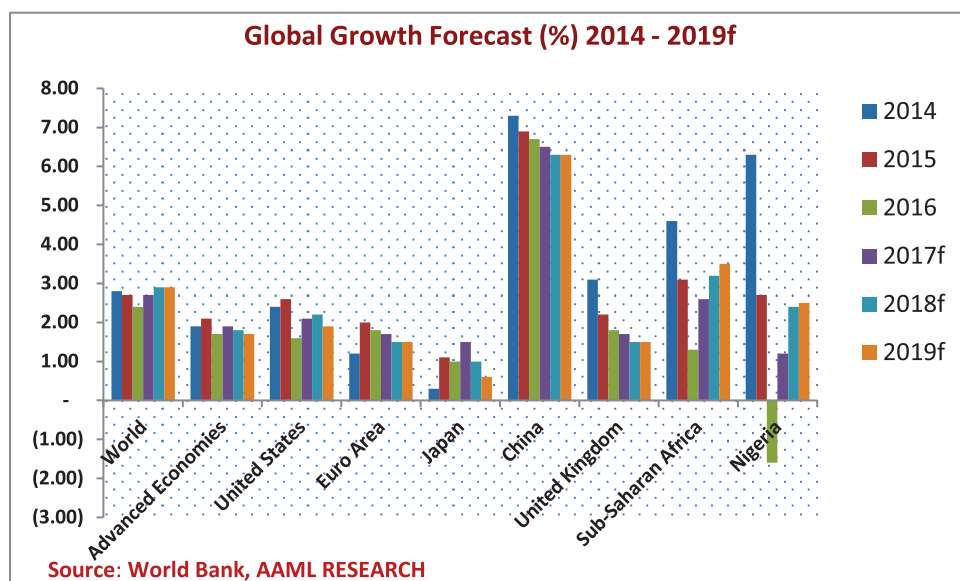
In Japan, a competitive yen and healthy investment buttressed economic growth. On the downside, economic dynamics in the United Kingdom started to feel the pinch of high inflation and subdued wage growth.

Growth softened at the outset of Q2 in China, suggesting that the country's Q1 stellar economic dynamics are running out of steam. A sharp correction in China could dramatically reverberate across the global economy, particularly among emerging countries.

Recent political developments in Brazil will certainly have a negative impact on the region's growth prospects in the coming months after the specter of yet another political crisis resurfaced in May following the release of secretly taped recordings involving President Michel Temer in a corruption scandal. For now, the President has been able to retain the support of all the parties in the ruling coalition government, but his political future is in jeopardy, endangering his reform agenda and threatening to derail Brazil's economic recovery.

**The World Bank forecasts that global growth will strengthen to 2.7% in 2017.**

						
	Japan	Eurozone	United Kingdom	China	United States	Nigeria
<b>Central Bank</b>	Bank of Japan	European Central Bank	Bank of England	People's Bank of China	Federal Reserve	Central Bank of Nigeria
<b>Benchmark rate</b>	-0.10 percent	0.0 percent	0.25 percent	4.35 percent	0.50–0.75 percent	14.00%
<b>Stable</b>						
<b>Current Policy</b>	Maintaining current easing program, which includes, 10 – years rates near zero and commitment to push inflation above 2%	Maintaining previous cuts on refinancing rate and deposit rate with no change to its expanded QE program.	August rate cut in response to EU referendum outcome. No action taken in September	August rate cut in response to EU referendum outcome. No action taken in September	No additional action since February's 50 basis points reserve ratio cut. Lending and deposit rates hold steady	Monetary Policy Rate has remained at 14.00%. All other key parameters unchanged
<b>Inflation</b>	0.0% – 2.0%	0.0% – 2.0%	0.0% – 2.0%	0.0% – 3.0%	0.0% – 2.0%	0.0% – 17.24%
<b>Unemployment</b>	3.1%	9.6%	4.8%	4.0%	4.0%	13.9%
<b>Analysis</b>	No material policy changes expected for 2017 given recent Yen weakness	No additional action projected, but skewed towards more easing or refinement of current QE program	No additional action likely near term, with direction of inflation and economic activity uncertain.	Recent economic improvements reduce the need for further rate and reserve ratio cuts in 2017	Anticipating additional interest rate increases in 2017	Anticipating reduction in interest rate in 2017



Stronger business and consumer confidence, rising industrial production and recovering employment and trade flows will all contribute to an improvement in global GDP growth from 3.0% in 2016 to 3.6% in 2018, according to OECD in the latest Economic Outlook.

Among the major advanced economies, the recovery will continue in the United States, which is projected to grow by 2.1% in 2017 and 2.4% in 2018.

The euro area will see steady growth at 1.8% in 2017 and 2018. In Japan, growth is projected at 1.4% in 2017 and 1% in 2018.

In China, growth is expected to slow to 6.6% in 2017 and 6.4% in 2018, while India's growth rates are expected to strengthen to 7.3% this year and 7.7% in 2018. Growth in Brazil is expected to turn positive for 2017 before reaching 1.6% in 2018.

### Risks to Global Growth outlook

Although looming uncertainties threaten global economic recovery, risks appear to be broadly balanced, with a slight positive bias. The economic recovery is gradually being consolidated on the back of a general uptick in global demand and improving labor markets, particularly in the developed world. Moreover, with the exception of the United States, monetary policies among the world's largest economies will remain accommodative throughout this year and governments are expected to shore up economic activity via fiscal spending.

**Among the major advanced economies, the recovery will continue in the United States, which is projected to grow by 2.1% in 2017 and 2.4% in 2018.**



Higher commodity prices are providing some relief to some battered emerging-market economies. Although the global outlook remains generally positive, some developments have the potential to jeopardize the nascent economic recovery.

In the U.S., the long-awaited fiscal stimulus has been scaled down and postponed, while uncertainty about President Donald Trump's commercial policies remains high.

Despite remaining strong, China's April data was much weaker than expected, suggesting that the world's major growth engine could be cooling significantly. While economic performance among emerging-market economies has improved compared to last year, the lack of impetus in commodity prices and still-large structural economic imbalances have the potential to reverse the situation.

Eastern Europe is expected to continue to benefit from strong dynamics in the Eurozone and the ongoing economic recovery in Russia.

### **UNITED STATES | Economy set to strengthen in Q2**

The economy seems to be back on its feet after having run aground in Q1 at 1.2% annualized growth. The April job report noted stronger employment gains compared with March and a further decline in the unemployment rate, which continues to prove a boon for households who have seen inflation rising and financial conditions tightening but only moderate wage growth.

In line with the brisk pace of job creation, retail sales picked up pace in April, which suggests that the stagnation in private spending observed in Q1 was indeed temporary. Industrial production also leaped at the outset of Q2, recording the largest expansion in more than three years in April on higher core manufacturing and mining output.

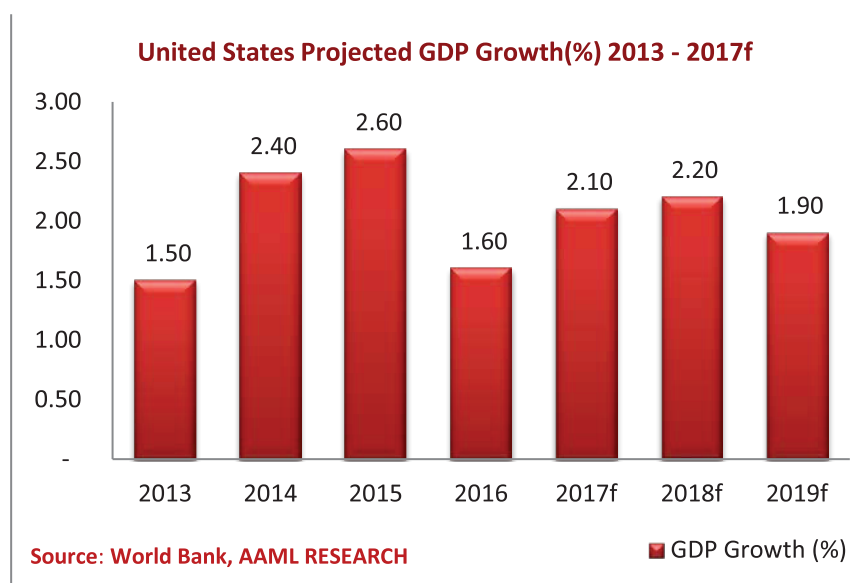
With survey-based data still strong, GDP growth is poised to come in at a stronger clip in Q2 despite the political storm that has engulfed the Trump administration in recent weeks.

The Federal Reserve forged ahead with the third interest rate hike in as many quarters against a backdrop of a steadily declining unemployment rate and despite a string of soft inflation readings.

**The Federal Reserve forged ahead with the third interest rate hike in as many quarters against a backdrop of a steadily declining unemployment rate and despite a string of soft inflation readings.**

At its 13-14 June meeting, the Federal Reserve's Open Market Committee (FOMC) announced its decision to raise the target for the federal funds rate from a range of between 0.75% and 1.00% to between 1.00% and 1.25%.

Heightened political noise is raising doubts about Washington's ability to roll out growth-inducing policies later this year. Nonetheless, the U.S. economy is expected to grow 2.2% this year, 2.4% in 2018.



France turned a page on 7 May after Macron clinched victory in the most tumultuous elections in recent history.

### EURO AREA | Growth momentum remains intact

Momentum remained firm at the outset of the year as a preliminary estimate revealed that GDP growth was steady at Q4's 0.5% quarter-on-quarter. Although details of the result are not yet available, the domestic economy is likely continuing its strong performance seen throughout 2016 thanks to an improved labor market and easy financing conditions, while a brighter external backdrop is positive for exports.

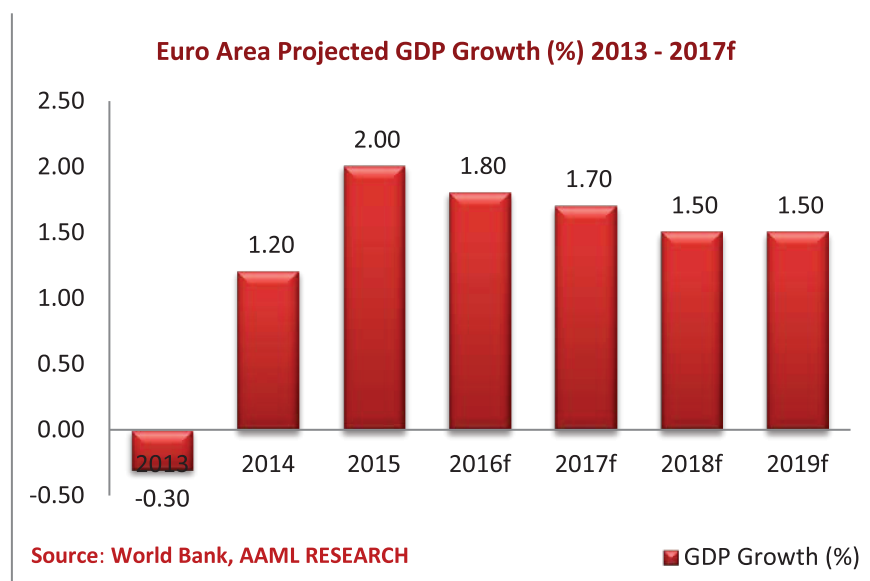
Leading indicators for the second quarter remain positive as both the composite PMI and economic sentiment rested at multi-year highs in May and April, respectively.

In addition, political risks to the bloc's outlook have dissipated somewhat as populist groups failed to take the helms of the French or Dutch economies. France turned a page on 7 May after Macron clinched victory in the most tumultuous elections in recent history. His victory discarded any fear that the country would perform a U-turn from economic orthodoxy and European integration.

Bright economic data and reduced uncertainty led the euro to hit a six-month high against the USD at the end of May.

The European Central Bank (ECB) decided to keep interest rates unchanged at its 8 June meeting and made no changes to its bond-buying program. The refinancing rate, the marginal lending rate and the deposit facility rate remain at 0.00%, 0.25% and minus 0.40%, respectively

The Eurozone's 2017 GDP forecast is put at 1.7% on the back of strong household spending and faster export growth. For 2018, growth is seen broadly steady at 1.6%.



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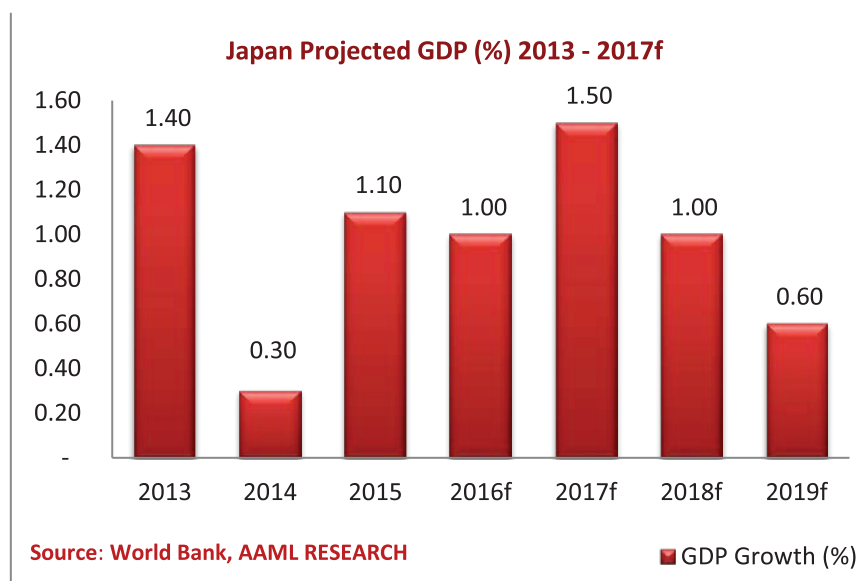
## JAPAN | Abe announces plan to revise the country's pacifist constitution

Recently released GDP data corroborates that growth momentum strengthened in Q1, as private consumption accelerated following Q4's nearly flat reading. Moreover, the external sector continued to look healthy, on the back of a competitive yen and robust global demand. Nevertheless, subdued wage gains, coupled with a resurfacing of inflation, are still eroding households' purchasing power, dashing any hope of achieving a sustainable growth trajectory in the near term.

In the political arena, Prime Minister Shinzo Abe is facing resistance from his own party in his attempt to revise Japan's constitution by 2020. The famous Article 9, which enshrines in law the country's pacifist stance, is proving to be a particular bone of contention. Abe's intention to provide the Self-Defense Forces with greater legal backing has the potential to fan political unrest in the region.

A weak currency and healthy global demand are propping up economic activity in the world's third-largest economy. However, limited wage growth, uncertainty regarding economic policies in the United States and a sizeable slowdown in China could derail Japan's economic recovery. Analysts see the economy growing 1.2%

this year, which is up 0.1 percentage points from last month's projection. For 2018, they see growth at 0.9%.



The cracks are starting to show in the UK's economy, as growth petered out in Q1 following a highly resilient performance last year after the Brexit vote.

## UNITED KINGDOM | Q1 GDP data highlights fragility of the economy

The cracks are starting to show in the UK's economy, as growth petered out in Q1 following a highly resilient performance last year after the Brexit vote. Households were squeezed by a triple whammy of measly nominal wage growth, higher inflation and working-age benefits freezes, while exports declined, with firms unable to capitalize on the weaker sterling.

On the upside, the labor market remains rock-solid, with unemployment reaching a fresh multi-decade low in March, while the manufacturing PMI surged to its highest level in three years in April. Although the economy cooled off, the political scene is heating up ahead of the 8 June election, with both major parties recently releasing their manifestos.

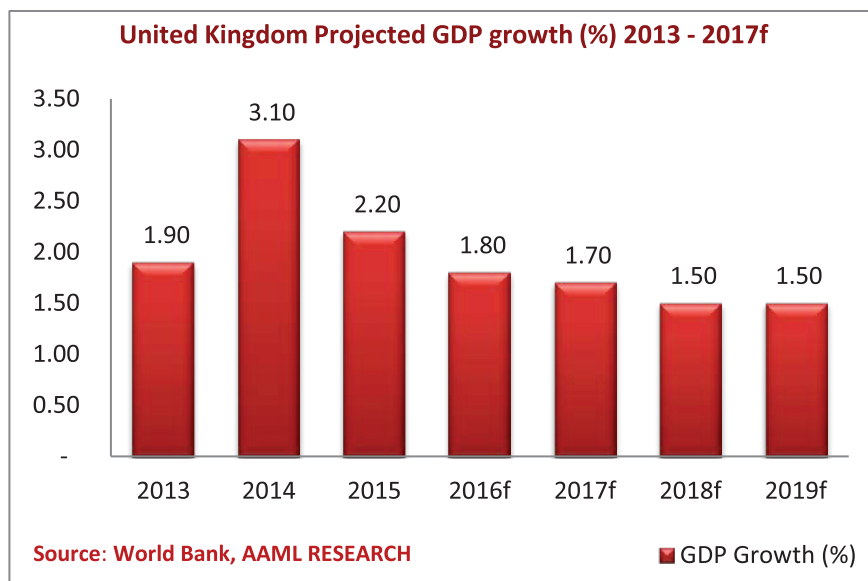
The result of the 8 June general election, which saw Theresa May's Conservative Party lose its absolute parliamentary majority and be forced to lean on the Democratic Unionist Party (DUP) in order to govern, has likely increased the probability of a slightly softer exit from the European Union.

One key question, which could affect both Brexit negotiations and domestic policy decisions, is whether the new government will be able to go the distance. In addition, there are already doubts over how long Theresa May can continue as leader of the Conservative Party.

At its meeting ending on 14 June, the Monetary Policy Committee (MPC) of the Bank of England (BoE) voted by a majority of five to three to leave the Bank Rate at

0.25%. The Bank also voted unanimously to continue its purchases of investment-grade corporate bonds to the tune of up to GBP 10 billion and to maintain the total stock of UK government bond purchases at GBP 435 billion, financed by the issuance of Central Bank reserves. All three decisions were in line with market expectations.

Growth is set to remain subdued going forward, with Brexit uncertainty deterring investment and consumers feeling the pinch due to stagnating living standards. The Central Bank expects the economy to expand 2.0% in 2017 and 1.6% in 2018.



The People's Bank of China has continued to issue new warnings to banks to reduce property lending.

### CHINA | Q1 GDP data highlights fragility of the economy

Economic momentum was largely stable in the first half of 2017, with growth in industrial production and retail sales steadying. Property investment growth slowed in the same month after having expanded consistently since Q3 2016 at which point the government's initiatives to curb the booming real estate market started to bear some fruit.

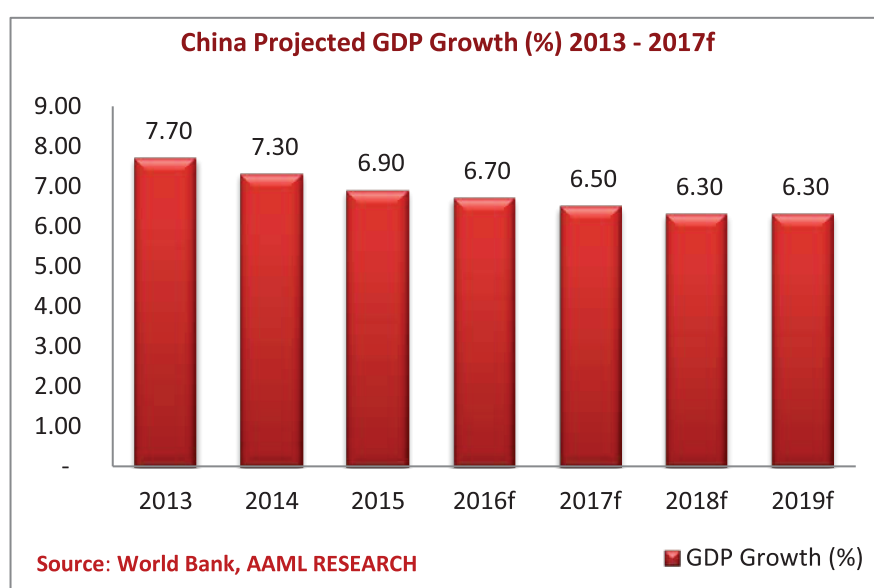
The People's Bank of China has continued to issue new warnings to banks to reduce property lending. It also increased several of its lending rates in March by another 0.1-0.2 percentage points, while maintaining the main one-year lending rate unchanged. Chinese financial regulators issued new guidelines to banks in April for improving risk control and loan quality.

China's GDP growth, consumer confidence and other indicators of economic activity were somewhat better than expected in the first quarter of 2017. China's GDP increased by 6.9% year-on-year in the first quarter of 2017 (up from 6.8% growth the previous quarter), beating expectations.

Economic growth is projected to hold up in 2017 and 2018, partly thanks to the

impact of earlier fiscal and monetary stimulus. Infrastructure investment is picking up on the back of regional development initiatives. Real estate investment will remain buoyant notwithstanding measures to restrict demand. Private investment growth has bottomed out and consumption growth will remain stable, underpinned by continued strong job creation. Recovering global demand will spur exports, but surging tourism imports will limit the effect on the current account balance. Therefore, GDP is forecast to rise by 6.6% in 2017 and 6.1% in 2018.

The improved outlook also reflects lower short-term risks of a trade war or more general confrontation with the new US administration. The power of more moderate advisors in the Trump administration has increased in the last two months, signalling a partial shift towards more mainstream Republican positions.



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In this context, the first meeting between Chinese president Xi Jinping and US president Donald Trump went relatively smoothly. The two presidents agreed to improve China-US economic relations with a 100-day action plan, and to cooperate on containing North Korea's military threats.

More severe tail risks remain substantial. A much stronger than expected tightening of credit conditions and bottlenecks in the economic rebalancing process could cause a hard landing, reducing annual GDP growth by 3% in 2017-2019.

### Sub-Saharan Africa (SSA) | Green shoots are emerging

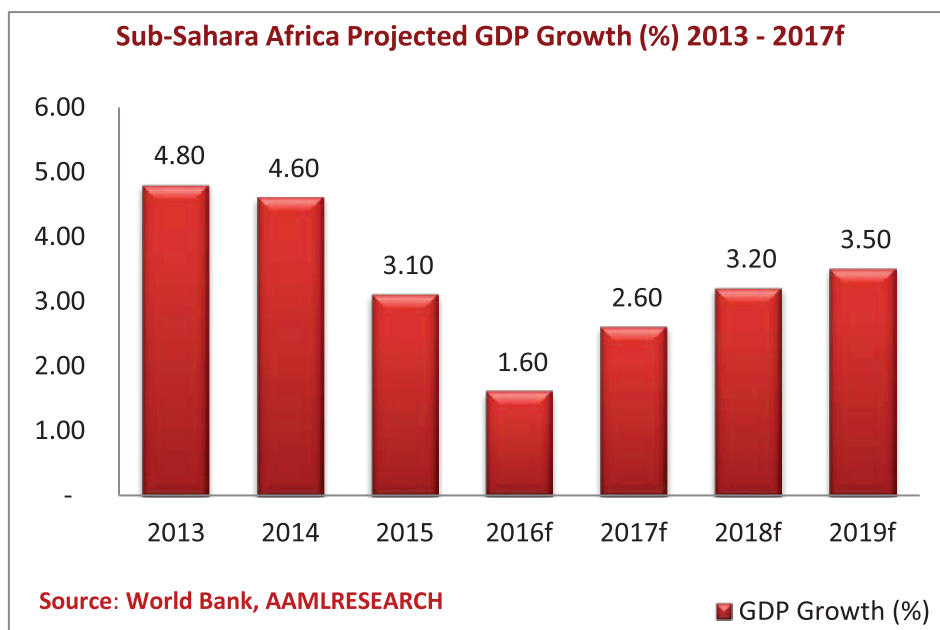
Growth firmed up in Sub-Saharan Africa (SSA) at the start of 2017, overshooting analysts' expectations. According to a preliminary estimate, regional GDP grew 2.1% annually in Q1, above Q4 2016's 1.3% expansion. If confirmed, this will mark

the fastest growth since Q4 2015 and suggests that green shoots are emerging in some battered economies that are beginning to recover from a dismal 2016. Overall, however, regional growth is still meager in a historical context as many economies are suffering from worsening economic imbalances.

Behind Q1's result was a fifth consecutive quarter of contraction in 'Nigeria's economy, as the oil sector continued to hold back growth. Security concerns stemming from militant attacks in the key oil-producing Niger Delta region have devastated oil production and the effects have rippled through the economy. However, the GDP contraction was the softest since Q4 2015 and the non-oil sector returned to growth in Q1.

Growth in South Africa picked up marginally in Q1, but was feeble all-in-all and the economy entered into a technical recession on a quarterly basis. The external sector failed to contribute to growth despite a better global backdrop and government spending was muted due to fiscal constraints. In fact, South Africa has been in the spotlight in recent weeks, as downbeat news continue to emerge from the second-largest economy in SSA.

**If confirmed, this will mark the fastest growth since Q4 2015 and suggests that green shoots are emerging in some battered economies that are beginning to recover from a dismal 2016.**



Elsewhere in the region, growth accelerated in 'Cote d'Ivoire' and in Mozambique. Activity strengthened in Mozambique thanks to a better performance by the mining sector, however, the country's economic panorama is still bleak due to strained government finances and a high debt burden. GDP figures for Q1 are still outstanding for the remaining economies in the region.

## CRUDE OIL MARKETS | Outlook grows more gloomy on Shale Surge and OPEC Uncertainty

The Organization of the Petroleum Exporting Countries (OPEC) met on May 25 and announced an extension to voluntary production cuts that were originally set to end this month. The agreed-upon OPEC crude oil production target will remain at 32.5 million barrels per day (b/d) through the end of the first quarter of 2018. So far, the production-cut agreement has had little impact on global inventory levels due to rising supply from producers not participating in the accord, such as Libya and Nigeria, and a relentless increase in U.S. shale oil output.

But rising production from the United States has so far undermined its efforts to reduce bloated global inventories to the five-year average. U.S. crude production hit 9.34 million bpd last week, its highest level since August 2015. Data from Baker Hughes in June showed that U.S. drillers added rigs for the 21st week in a row, the longest such streak on record, implying that further gains in domestic production are ahead. The U.S. rig count rose by 8 to 785 extending a year-long drilling recovery to the highest level since April 2015. OPEC's decision to extend the same level of cuts for nine months rather than reducing production further could prove insufficient to draw out the surplus despite OPEC's strict compliance with the curbs.

Growth in oil production from U.S. shale will remain a real threat that could scupper much of the benefits from output cuts by OPEC.

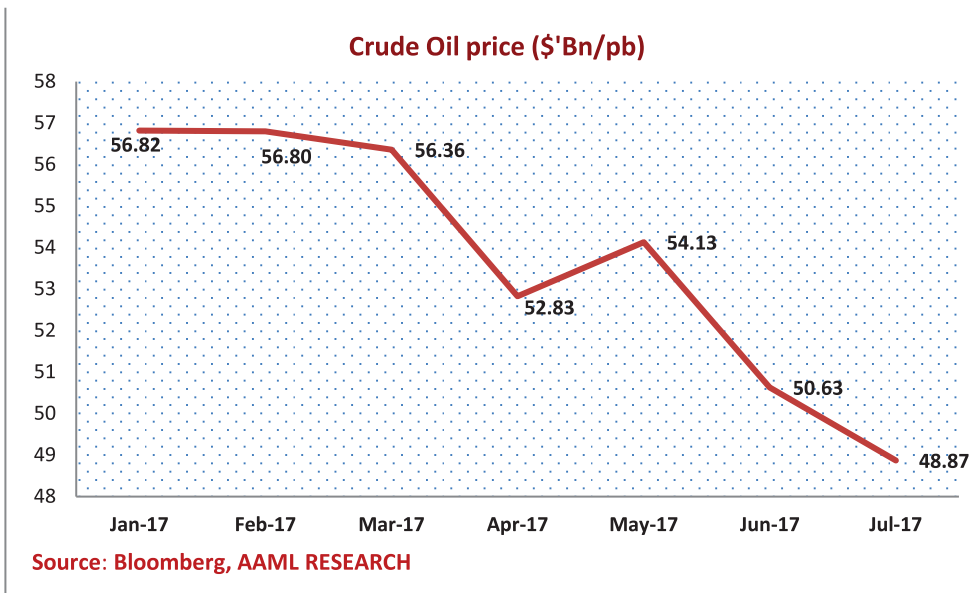
EIA now forecasts OPEC crude oil production to average 32.3 million b/d in 2017 and 32.8 million b/d in 2018.

EIA forecasts Brent spot prices to average \$53/b in 2017 and \$56/b in 2018. West Texas Intermediate (WTI) crude oil prices are forecast to average \$2/b less than Brent prices in both 2017 and 2018.

**The agreed-upon OPEC crude oil production target will remain at 32.5 million barrels per day (b/d) through the end of the first quarter of 2018.**



A survey of 34 economists and analysts carried out by Reuters in June 2017 predicted Brent crude would average \$55.57 per barrel in 2017, lower than last month's forecast of \$57.04. WTI is expected to average \$53.52 a barrel this year, dipping from last month's forecast of \$54.73.



A survey of 34 economists and analysts carried out by Reuters in June 2017 predicted Brent crude would average \$55.57 per barrel in 2017, lower than last month's forecast of \$57.04.

NIGERIA ECONOMY

Key Development in Macro Economic | Political Environment

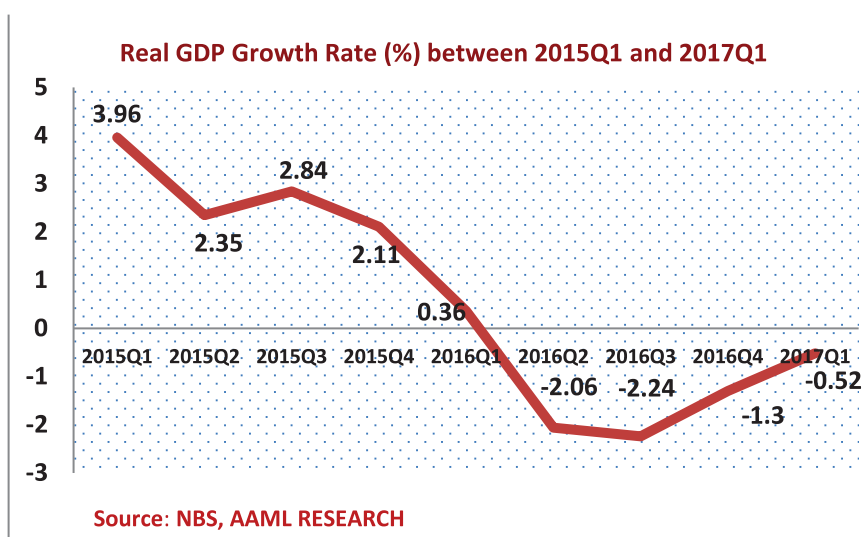
Contrary to expectation that sustained saga over the president's health could lead to lack of political decision and repetition in weak policy response with the vice viewed to be more pro-market inclined. However, it appears to be some silver linings as strong macroeconomic data from different organizations during the first two quarters of the year confirm that economic activities are improving, with increasingly investors' confidence.

Data from the National Bureau of Statistics (NBS) show a consistent contraction in the country's aggregate output in the last three quarters (Q3:2016 = -2.24%; Q4:2016 = -1.30%; Q1:2017 = -0.52) into the year. The positive development were due to a number of factors from the passage of 2017 budget and Petroleum Industry Governance Bill (PIGB) by the National Assembly, and continuous dollar intervention in the foreign exchange market by Central Bank of Nigeria.

Overall, the current negative trend in economic output is expected to reverse before the end of 2017 and grow approximately 1.0% compared to an estimated -1.7% GDP growth rate in 2016.

GDP GROWTH | Economy Showing Signs of Recovery

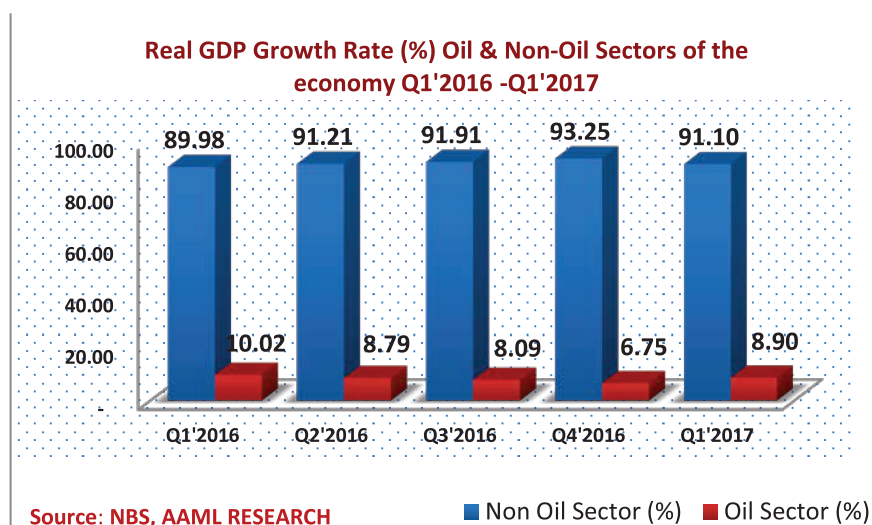
Following the release of Q1:2017 Gross Domestic Product (GDP) figures by the National Bureau of Statistics (NBS), emerging signals indicated that the pace of recession was slowing and we look for growth to eventually return before end of the year.



Emerging signals indicated that the pace of recession was slowing and we look for growth to eventually return before end of the year.

Precisely, the nation's GDP contraction slowed from -1.30% in Q4:2016 to -0.52% in Q1:2017, as slower contraction in oil GDP to -11.64% (year-on-year) and growth in the non-oil front.

In real terms, Oil sector contributed 8.90% of the total real GDP in Q1'2017, down from the 10.02% recorded in Q1'2016. In contrast, non-oil sector share of the economic growth was 91.10%, up from the 89.98% recorded in Q1'2016.



The Agricultural sector in real term growth rate contributed 3.39% year-on-year Q1:2017, an increase of 0.30% points contrast to 3.09% in Q1:2016.

The Information and Communication sector grew in real terms by 2.73% year-on-year in Q1:2017 driven by Telecommunication and Information services.

The manufacturing sector contributed 9.31% in Q1:2017 in contrast to 9.34% in corresponding 2016 and 1.36% year-on-year. Construction contributed 4.14% in Q1:2017 higher than 4.00% contributed in Q1:2016 and 0.15% year-on-year.

Trade's contribution to GDP in Q1:2017 was 20.20% lower than 21.57 in Q1:2016, but higher than Q4:2016 at 19.34%. This sector is largely dependent on household spending, which has been weakened by unemployment and high inflation.

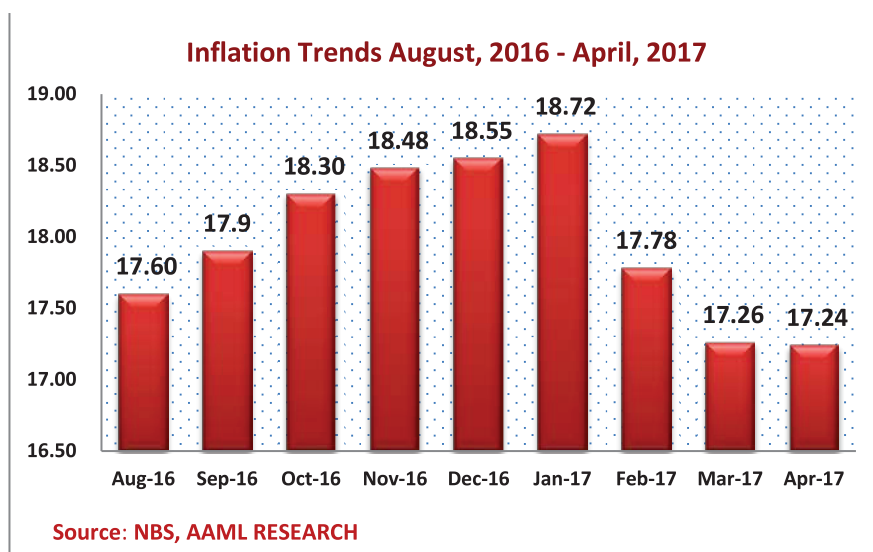
In all, the data shows that the economy is firmly on the path of recovery largely driven by the activities in the non-oil agricultural sector, particularly crop production (3.5%), and other services such as metal ores (40.79%), Information and Communication Technology (2.89%), manufacturing, road transportation (12.35%), and forestry (2.59%).

### INFLATION | Maintains a Downward Trend

Over the first five months of 2017, Nigeria economy experienced a decline in Headline inflation rate (year-on-year), dropped in May to 16.25%, from 17.24% in April 2017, thus maintaining the downward trend since January 2017.

Notably the decline represents 0.99% points lower. The drop was driven by slow increases recorded in food prices, non-food prices and favorable base effects over 2016 prices indicating that the inflation rate has been easing so far in 2017.

Going forward, we expect impact of improvement in non-oil agricultural sector reflected in GDP growth to continue to dictate core inflation and overall headline trajectory.



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### Crude Oil Production/Prices | Prices Showing Downward Trend

The decision of the OPEC and non-OPEC countries to extend crude oil supply cuts of 1.8 million barrels per day (bpd) until the end of the first quarter of 2018 in a bid to further stem the global glut of crude in the market and prop up prices has shown no significant boost to oil prices rather dropping below \$50 per barrel, weighed down by a continuing expansion in U.S. drilling that has helped to maintain high global supplies.

Supplies from OPEC and other countries participating in the output cuts, including top producer Russia, also remain high as some countries have not fully complied with their pledges.

OPEC supplies jumped in May as output recovered in Libya and Nigeria, both exempted from the production reduction agreement.

There are also indicators that demand growth in Asia, the world's biggest oil-consuming region, is stalling, dropping prices to levels comparable to when the output cuts were first announced late last year.

Japan's customs-cleared crude oil imports fell 13.5% in May from the same month a year earlier, to 2.83 million bpd.

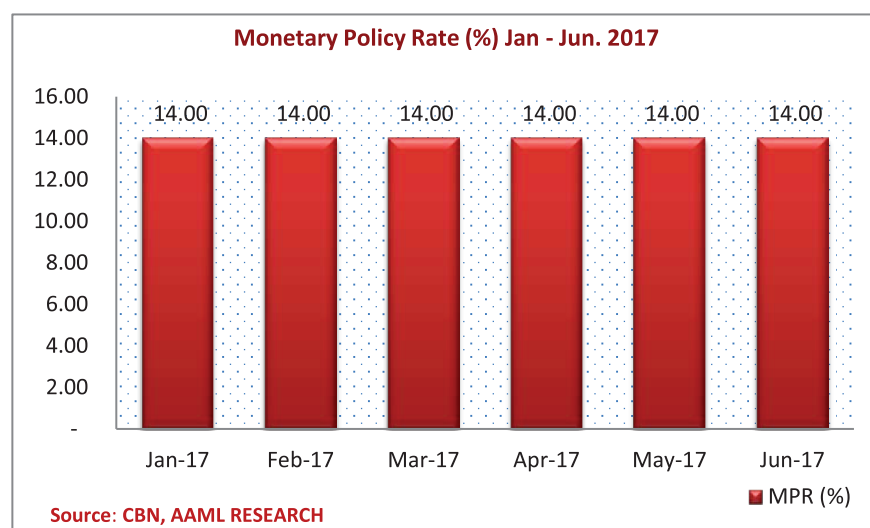
India, which recently overtook Japan as Asia's second-biggest oil importer, took in 4.2% less crude oil in May than it did a year ago.

In China, which is challenging the United States as the world's biggest importer, oil demand growth has been slowing for some time, albeit from record levels, and we expect growth to slow further in coming months. Reducing the glut of oil will be challenging.

**Monetary Policy Development | Status Quo Maintained**

Monetary Policy remains unchanged, in May, as the CBN maintained its priorities in the direction of maintaining price stability despite contraction in economic output and decline in headline inflation.

The Policy maker at the end of its meeting both in March and May, retained the Monetary Policy Rate (benchmark interest rate), Cash Reserve Ratio and Liquidity Ratio at 14.00% and 30.00. Respectively hoping Economic Recovery and Growth Plan released, its speedy implementation with clear timelines and deliverables will support monetary policy stance subsequently help revive economic growth in the short to medium term and stabilize prices.



## Monetary, Credit and Financial Market Developments

Broad Money supply (M2) contracted by 8.48% in April 2017, annualized to a contraction of 25.44% in contrast to the provisional growth benchmark of 10.29% for 2017. Net Domestic Credit (NDC) grew by 1.40% in April, 2017, annualized to 4.21%, which is significantly below the 17.93% provisional growth benchmark for 2017. However, net credit to government grew by 24.08% over end - December 2016, representing an annualized growth of 72.0%. The Committee was concerned that credit to government continued to outpace the programmed target of 33.12% for fiscal 2017, while credit to the private sector declined considerably far below the programmed target of 14.88%. The dismal performance of growth in credit to the private was primarily to the low performance of the economy.

### MONEY MARKET INDICATORS

Month	January, 2017	February, 2017	March, 2017	April, 2017	May, 2017
Inter-Bank Call Rate	8.15	27.46	13.11	64.58	21.29
MPR	14.00	14.00	14.00	14.00	14.00
Treasury Bill Rate	13.95	13.75	13.60	13.58	13.50
Savings Deposit Rate	4.22	4.22	4.23	4.24	4.08
1 Month Deposit	8.58	8.24	8.58	8.87	8.73
3 Months Deposit	8.88	9.13	9.11	9.46	9.41
6 Months Deposit	10.31	10.40	10.56	10.64	10.57
12 Months Deposit	10.77	10.37	10.57	10.38	11.33
Prime Lending Rate	16.91	17.13	17.43	17.44	17.58
Maximum Lending	28.88	29.26	30.18	30.31	30.75

Source: CBN, AAML Research

The Federal Government, the 36 states and their local government areas have so far shared N1.4 trillion from the federation account, being revenue generated in the first quarter of 2017.

### FAAC | Possible decline in revenue as crude oil price dropping

The Federal Government, the 36 states and their local government areas have so far shared N1.4 trillion from the federation account, being revenue generated in the first quarter of 2017.

The total revenue shared in January between the federal, states and local governments was N430.16 billion, meaning that federal took N168 billion, states, N114.28 billion and local governments, N85.4 billion.

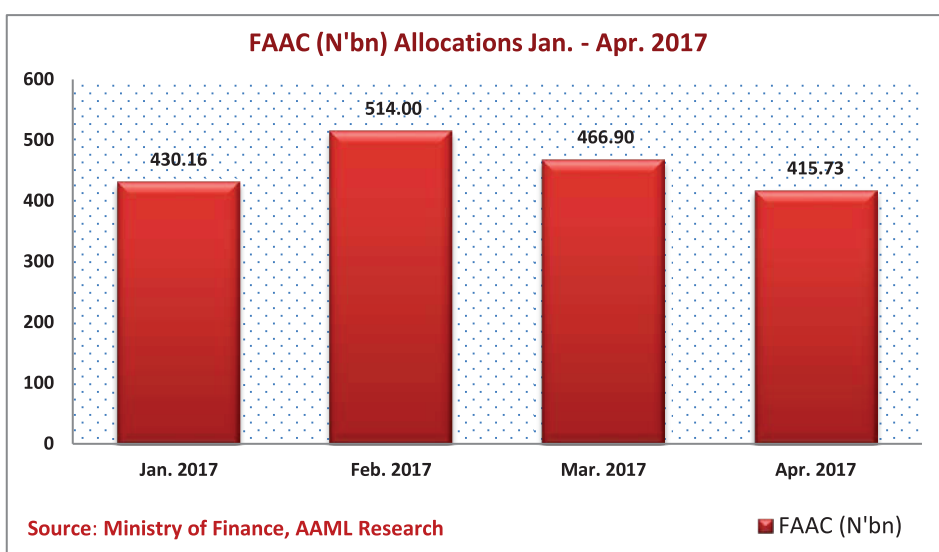
The federation grossed in N514 billion in February and Federal Government's share was N200.6 billion, states, N128.4 billion and local governments, N96.52 billion.

However, in March, revenue generation dipped lower, grossing N466.9 billion, and

from it, the Federal Government got N180.5 billion, state governments, N116.5 billion and local governments, N87.5 billion.

The allocations for the month of April declined by N52.07bn to N415.73bn from the N467.8bn shared in March. Declined in revenue allocated was attributed to crude oil production setbacks arising from sabotage and shutdown of installations.

Accordingly, the Federal Government received N163.89bn; states, N117.59bn; and the 774 local government councils, N87.77bn. In addition, the sum of N29.83bn was shared to the oil-producing states based on the 13% derivation principle, while the revenue-generating agencies received N16.52bn as cost of revenue collection.



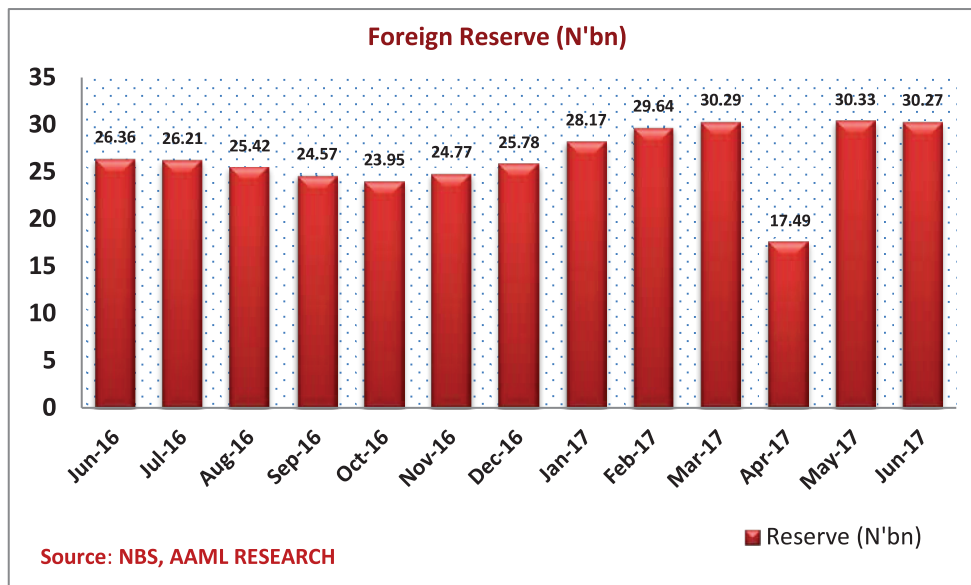
The Central Bank of Nigeria (CBN) in an effort to bridge the disparity between the parallel market and official rates further enhanced its' dollar interventions in April 2017 by opened a special foreign exchange window for investors and exporters tagged: "Investors and Exporters FX Window".

### Exchange Rate | Imminent Stability in the Foreign Exchange Market

The Central Bank of Nigeria (CBN) in an effort to bridge the disparity between the parallel market and official rates further enhanced its' dollar interventions in April 2017 by opened a special foreign exchange window for investors and exporters tagged: "Investors and Exporters FX Window". The development aimed to boost liquidity in the Forex market and ensure timely execution and settlement for eligible transactions.

In another development during the second quarter of the year, local investors decried the closure of several investments due to lack of access to foreign exchange to procure necessary facilities to support their operations. Consequently, CBN opened a special window for small and medium enterprises, SMEs, to facilitate the importation of eligible finished and semi-finished items. As many players in the foreign exchange market tendering their FX needs, CBN continuously injecting

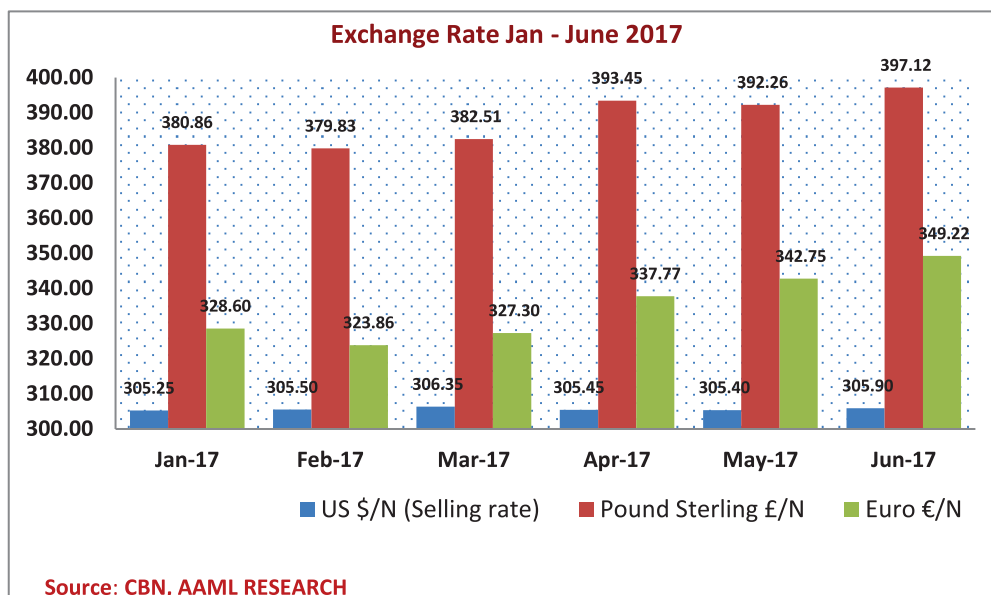
dollar into the market to reduce pressure on the local currency. Since February 2017 that CBN introduced Forex windows, the exchange rate has stabilized between the naira and the dollar on both the black and several official markets currently available. CBN effort led to dollar gaining over 41.69% closing at N367/\$ in June 2017 from all time high of N520/\$ in February.



Going forward, we are expecting a slight depreciation in the value of the naira as we approach the summer holiday period for many Nigerians unless the Central Bank increases dollar supply to the market to cater for the likely surge in demand.

Nigeria's foreign exchange reserve in the first half of 2017 grew by 16% despite the several interventions of the Central Bank of Nigeria (CBN) at the foreign exchange market standing at \$30.271billion as at June 30, 2017.

Going forward, we are expecting a slight depreciation in the value of the naira as we approach the summer holiday period for many Nigerians unless the Central Bank increases dollar supply to the market to cater for the likely surge in demand.





Money market rate remains high as government resort to the market to balance budget deficits. The yield on the 364 days Nigerian Treasury Bills remain with the region of 20% per annum. This has been attributed to increase risk in the Nigeria economic, which include high inflation rate, weak currency occasion by fluctuations in crude oil price and production. However, recent development shows that confidence is returning into the Nigeria economy and the risks are dropping. This development may pave way for a drop in the interest rate in the short term.

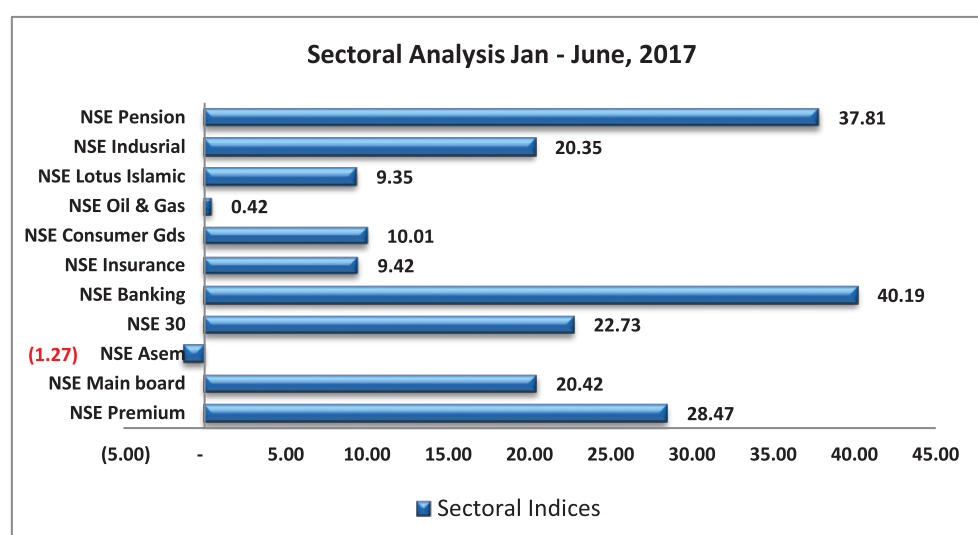
**Equity Market | Springing Back To Life**

After a week performance from the beginning of 2017, the equity market rallied from the month of April into June recording highest performance in 11 months. The bullish sentiment witnessed can be attributed to the ongoing liberation of the FX market, passage of the long awaited 2017 budget, as well as extension of the OPEC and non-OPEC members deal to cut crude oil supply till 2018. Also, improvement in macroeconomic data which signifies recessions coming to an end.

With this, the NSE ASI and Market Capitalization however appreciated by 23.80% Ytd to close at 33,269.84 points and N11.50tn, respectively.

The bullish market was driven by the Nigerian Banking stock which has risen by 47.58% year-to-date, outperforming the broad All Share Index by 24.22%. The index performance was driven by investors taken advantage of the low valuation and high expectation of half year results often comes with dividends payment as well as other macro-economic sentiment.

**Sectoral Review**



Source: NSE, AAML Research

**After a week performance from the beginning of 2017, the equity market rallied from the month of April into June recording highest performance in 11 months.**

All sectoral indices closed in green zone except NSE ASEM at the end the quarter, Q2:2017. Banking Stocks, the most improved sector index up 45.08% ytd, followed by NSE Pension rose by 42.92% and others NSE Industrial (up 21.12%), NSE Lotus Islamic (up 11.15%), NSE Oil & Gas (up 3.35%), NSE Consumer Goods (up 11.61%), NSE Insurance (up 9.16%), NSE Main Board (Up 23.12%) and NSE Premium (Up 31.15%) respectively. NSE Asem Index was the only laggard amongst the sector indices; down 1.27% in June.

**All sectoral indices closed in green zone except NSE ASEM at the end the quarter, Q2:2017.**

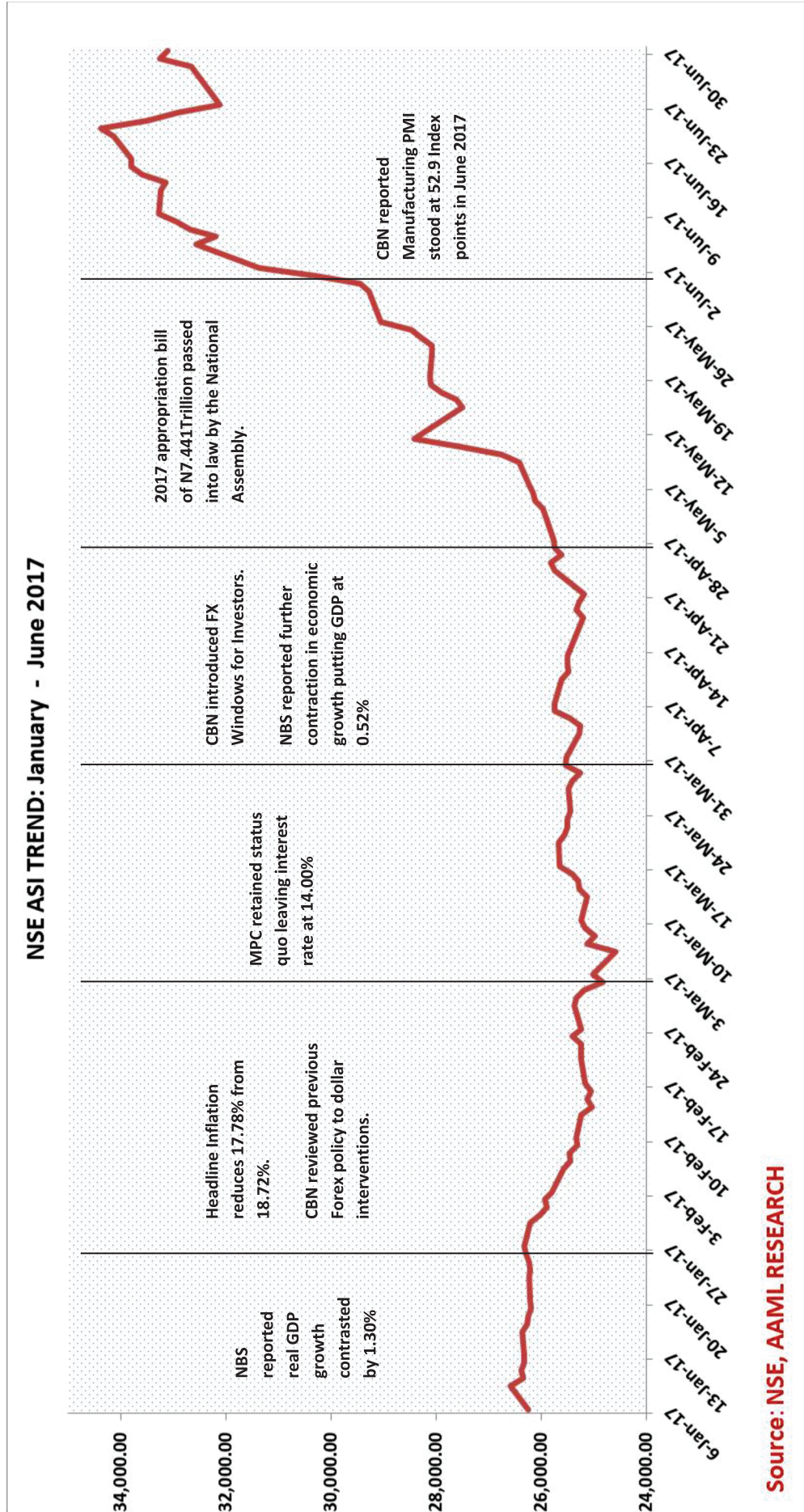
**Domestic and Foreign Portfolio Transaction in Equity | May 2017**

Period	Total	Foreign	Foreign (%)	Domestic	Domestic (%)	Foreign Inflow	Foreign Outflow	Domestic Retail	Domestic Inst.
Jan-17	95.32	44.01	46.17	51.31	53.83	22.61	21.40	20.12	31.19
Feb-17	74.11	34.54	46.61	39.57	53.39	16.10	18.44	15.22	24.35
Mar-17	285.05	132.51	46.49	152.54	53.51	23.64	108.87	23.77	128.77
Apr-17	54.90	22.45	40.89	32.45	59.11	14.54	7.91	14.20	18.25
May-17	205.61	95.19	46.30	110.42	53.70	73.15	22.04	42.47	67.95
2017	714.99	328.70	45.97	386.29	54.03	150.04	178.66	115.78	270.51
YTD									
2016	468.56	189.45	40.43	279.11	59.57	78.83	110.62	131.99	147.12
YTD									

Total transactions at the nation's bourse increased significantly by 274.51% from N54.90 billion recorded in April 2017 to N205.61 billion (about \$0.67 billion) in May 2017. Domestic investors outperformed foreign investors by 7.40%. Total domestic transactions increased by 240.27% from N32.45 billion recorded in April 2017 to N110.42 billion in May 2017. Foreign transactions also increased by 324.01% from N22.45 billion to N95.19 billion within the same period.

Monthly foreign inflows outpaced outflows as foreign inflows increased by 403.09% from N14.54 billion in April to N73.15 billion in May 2017. Foreign outflows also increased by 178.63% from N7.91 billion in April to N22.04 billion in May 2017.

In comparison to the same period in 2016, total FPI transactions from January to May 2017 increased by 74.03% from N189.45 billion to N328.70, whilst the total domestic transactions increased by 38.40% from N279.11 billion to N386.29 billion.



**31 March 2017 Quarterly Financial Results**

N'Million SECTORS	TurnOver		Chg.(%)	PAT		Chg.(%)	EPS		Chg.(%)
	Q1:2017	Q1:2016		Q1:2017	Q1:2016		Q1:2017	Q1:2016	
<b>Banking</b>							k	k	
Zenith Bank	147,736.00	99,435.00	48.58	37,499.00	26,573.00	41.12	1.19	0.84	41.67
Guaranty Trust Bank	104,864.66	75,619.50	38.67	41,477.41	25,614.45	61.93	1.47	0.90	63.33
FCMB	38,462.21	34,421.50	11.74	1,581.29	1,645.40	(3.90)	0.32	0.33	(3.03)
Wema Bank	11,875.97	11,310.45	5.00	722.17	429.53	68.13	0.07	0.04	75.00
Sterling Bank	28,554.00	25,504.75	11.96	1,876.00	2,543.10	(26.23)	0.07	0.09	(22.22)
UBA	101,249.00	73,658.00	37.46	22,350.00	16,986.00	31.58	0.63	0.49	28.57
Access Bank	115,482.90	80,320.11	43.78	26,019.08	19,418.84	33.99	0.90	0.67	34.33
FBNH	141,125.00	107,510.23	31.27	16,120.10	20,710.12	(22.16)	0.40	0.57	(29.82)
Diamond Bank	57,120.15	52,450.20	8.90	4,808.07	5,810.44	(17.25)	0.21	0.25	(16.00)
Ecobank	178,387.71	131,374.91	35.79	18,681.79	16,206.31	15.27	0.61	0.59	3.39
Fidelity Bank	40,842.00	34,356.00	18.88	4,316.00	3,583.00	20.46	0.15	0.12	25.00
Stanbic IBTC	47,022.00	34,780.00	35.20	16,074.00	7,791.00	106.31	1.55	0.68	127.94
Union Bank	33,845.00	27,275.00	24.09	4,519.00	4,719.00	(4.24)	0.26	0.28	(7.14)
	<b>1,046,566.60</b>	<b>788,015.65</b>	<b>351.30</b>	<b>196,043.91</b>	<b>152,030.19</b>	<b>305.01</b>	<b>7.83</b>	<b>5.85</b>	<b>321.01</b>
<b>Consumer Goods</b>							k	k	
DangSugar	59,527.46	32,617.17	82.50	4,758.11	3,338.68	42.51	1.59	1.12	41.96
FlourMill - FY:2016	524,464.45	342,586.46	53.09	8,836.45	14,420.28	(38.72)	3.03	5.57	(45.60)
Cadbury	8,071.47	7,121.16	13.34	92,952.00	672,822.00	(86.18)	0.05	0.36	(86.11)
Nestle	61,151.52	36,130.87	69.25	8,358.83	6,681.39	25.11	10.55	8.43	25.15
Unilever	22,172.31	16,782.16	32.12	1,603.04	1,041.40	53.93	0.42	0.28	50.00
Honeywell	53,227.89	50,883.78	4.61	4,304.96	(3,023.85)	(242.37)	54.29	(38.13)	(242.38)
	<b>728,615.10</b>	<b>486,121.60</b>	<b>49.88</b>	<b>120,813.39</b>	<b>695,279.90</b>	<b>(82.62)</b>	<b>69.93</b>	<b>(22.37)</b>	<b>(412.61)</b>
<b>Oil and Gas</b>									
Forte Oil	33,003.97	35,602.14	(7.30)	1,884.50	954.24	97.49	0.54	0.51	5.88
Mobil	25,168.71	22,680.52	10.97	13,059.00	1,816.01	619.10	0.04	5.04	(99.21)
Mrs Oil	37,581.45	25,071.00	49.90	399.99	363.36	10.08	1.57	1.43	9.79
Seplat	14,474.00	16,585.00	(12.73)	(5,855.00)	(4,480.00)	30.69	(10.33)	(6.67)	54.87
Total	80,462.81	59,704.85	34.77	2,671.52	2,824.62	(5.42)	7.87	8.32	(5.41)
	<b>190,690.94</b>	<b>159,643.51</b>	<b>19.45</b>	<b>12,160.01</b>	<b>1,478.23</b>	<b>722.61</b>	<b>(0.31)</b>	<b>8.63</b>	<b>(103.59)</b>
<b>Construction/Real Estate</b>									
Julius Berger	34,153.22	28,701.30	19.00	(426.95)	251.26	(269.92)	(0.07)	0.70	(110.00)
LafargeWapco	81,310.51	52,420.90	55.11	5,161.09	(1,872.99)	(375.55)	0.92	166.00	(99.45)
Dangote Cement Plc	208,166.00	140,521.00	48.14	70,572.00	52,779.00	33.71	4.25	3.12	36.22
Ashaka Cement	8,831.82	3,617.07	144.17	2,158.92	155,808.00	(98.61)	0.96	0.07	1,271.43
	<b>332,461.55</b>	<b>225,260.27</b>	<b>47.59</b>	<b>77,465.06</b>	<b>206,965.27</b>	<b>(62.57)</b>	<b>6.06</b>	<b>169.89</b>	<b>(96.43)</b>
<b>Agriculture</b>									
Livestock Feeds	3,122.56	2,091.39	49.31	17,648.00	2,327.00	658.40	0.88	0.12	633.33
Presco	7,172.49	3,181.43	125.45	3,902.16	1,399.11	178.90	3.90	1.40	178.57
Okomu Oil	5,896.34	3,325.92	77.28	3,069.50	1,595.93	92.33	3.22	1.67	92.81
	<b>4,024.00</b>	<b>3,699.00</b>	<b>8.79</b>	<b>14,376.00</b>	<b>39,739.00</b>	<b>(63.82)</b>	<b>1.25</b>	<b>2.37</b>	<b>(47.26)</b>

Source: NSE, AAML Research

**OUTLOOK FOR H2:2017**

Considering Nigeria economy showing signs of recovery from recession as seen in GDP contraction by 0.52% in Q1'2017, inflation tending downwards to 17.24% in April, naira traded fairly stable in the foreign exchange market as dollar interventions continue, industrial capacity is beginning to improve as manufacturing PMI grew by 51.1% in April, from 47.7% in March and extension of crude oil supply cuts leading to increase in its' prices. These improvements in macroeconomic indicators are key parameters boosting investors' confidence.

In all of these, we anticipate a further bullish posture in the equities market coupled with anticipated half year corporate results, further appreciation in Naira as CBN continues to intervene in the market, crude oil prices to trade within the prevailing band of \$47pb and \$55pb and further drop in inflation rate.

**These improvements in macroeconomic indicators are key parameters boosting investors' confidence.**

# Section 3

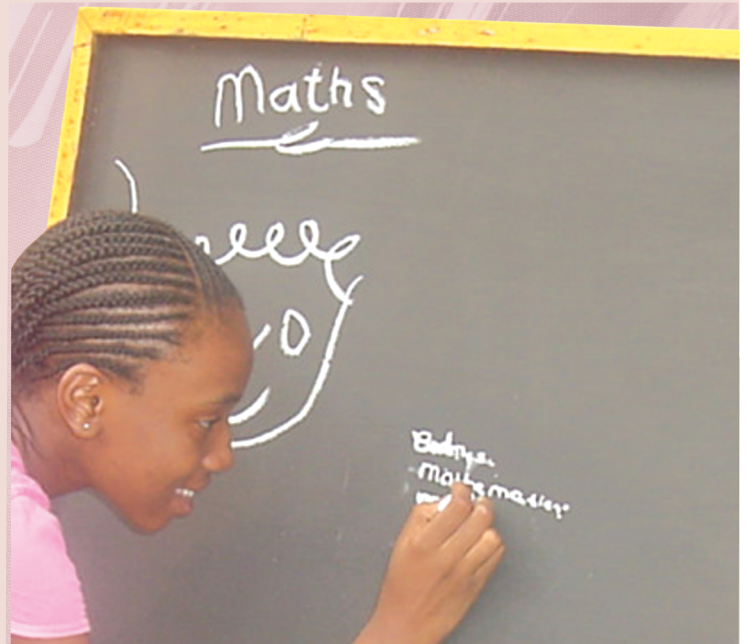
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## CONCEPT OF WEALTH MANAGEMENT UNDER ISLAMIC FINANCE



### ISLAMIC FINANCE

Islamic finance or sharia-compliant finance is financing activity that complies with sharia (Islamic law) and its practical application through the development of Islamic economics. The contemporary movement of Islamic finance is based on the belief that "all forms of interest are riba and hence prohibited". Some of the modes of Islamic finance include Mudarabah (Profit and loss sharing), Wadiah (safekeeping), Musharaka (joint venture), Murabahah (cost plus), and Ijar (leasing). Islamic finance may be viewed as a form of ethical investing, or ethical lending, except that no loans are possible unless they are interest-free. Also, its practitioners and clients need not be Muslim, but they must accept the ethical restrictions underscored by Islamic values.

Islamic finance prohibits riba or usury, defined as interest paid on all loans of money. Investment in businesses that provide goods or services considered contrary to Islamic principles (e.g. pork or alcohol) is also haraam ("sinful and prohibited") is a concept that is based on Sharia'ah principles and the structure is different from that of conventional banking and financing activity in terms of its essence, nature and spirit. The Sharia'ah principles are those rules and injunctions that are derived from the Qur'an (the holy book), Hadith (the sayings and records of the Prophet), Ijma (consensus of scholars) and other sources which involves the exercise of intelligence and reasoning based on interpretations. Hence Islamic finance is said to be done when the internal processes, procedures and financial transactions are in compliance with the rules prescribed by Qur'an and Hadith.

Conventional financing activity or the capitalist economy is based on the system in which interest plays a pivotal role and therefore becomes part and parcel of the financing package.

## PRINCIPLES UNDER ISLAMIC FINANCE

Generally, under Islamic finance, financial institutions mobilize financial resources and invest them in an attempt to achieve predetermined islamically acceptable social and financial objectives. Both mobilization and investment of funds are usually conducted in accordance with the principles of Shari'ah. The principles of Islamic finance are established in the Qur'an and these principles of finance can be narrowed down to four individual concepts.

1. Prohibition of Interest or Usury
2. Ethical Standards
3. Moral and Social Values
4. Liability and Business Risk

### 1- Prohibition of Interest or Usury

Interest in simple words can be defined as:

- Any excess amount of money paid on principal.
- Any premium given at the time of paying back the loan.
- A compensation without any consideration on any amount of loan.

The first and most important concept is that both the charging and the receiving of interest is strictly forbidden. This is commonly known as Riba or Usury. Money, on its own, may not generate profits. When Riba infects an entire economy, it jeopardizes the well-being of everyone living in that society. When investors are more concerned with rates of interest and guaranteed returns than they are with the uses to which money is put, the results can only be negative.

### 2- Ethical Standards

The second guiding principle concerns the ethical standards. Under Shari'ah law, when money is invested in something, it is a religious duty to ensure that whatever has been invested in is good and wholesome. It is for this reason that Islamic investing includes serious consideration of the business to be invested in, its policies, the products it produces, the services it provides, and the impact that these have on society and the environment. For example, in share trading or the securities market, Islam looks at the activities of the companies, to establish whether or not the companies are involved in activities which are in line with Shari'ah.



### 3- Moral and Social Values

The third guiding principle concerns moral and social values. Islamic financial institutions are expected to provide special services to those in need. This is not confined to mere charitable donations but has also been institutionalized in the industry in the form of profit-free loans or Al Quard Al Hasan.

An Islamic financial business includes certain social projects, as well as charitable donations. Islamic banks provide profit-free loans. For example, if an individual needs to go to hospital or wants to go to university, we give what is called Quard Al Hasan. This Quard Hasan is normally given for a short period of one year and no interest is charged on it.

### 4- Liability and Business Risk

The final principle concerns the overarching concept of fairness, the idea that all parties concerned should both share in the risk and profit of any endeavor. To be entitled to a return, a provider of finance must either accept business risk or provide some service such as supplying an asset. "Profit comes with liability" under Shari'ah law and what this means is that one becomes entitled to profit only when one bears the liability, or risk of loss. By linking profit with the possibility of loss, Islamic law distinguishes lawful profit from all other forms of gain.

In order to ensure that these principles are followed, it is mandatory for Islamic institutions to establish and provide themselves with an advisory council known as a Sharia'ah Board whose members may include bankers, lawyers or religious scholars as long as they are trained in the Islamic law, or Sharia'ah.

## ISLAMIC FINANCE & ITS ADVANTAGES

- Reduction of exploitation by charging interest: Exploitation by banks and other financial institutions due to charging of interest is reduced since the non-interest technique is adopted.
- Attraction of idle money: Participants are encouraged to utilize idle money into meaningful ventures.

- Promotion of employment: This happens due to its mode of operation giving the investors more chance to get access to direct financial opportunity. This to an extent promotes employment. It provides better opportunities to businessmen.
- Adoption of asset-backed finance: This method has to do with the transfer of funds and it is not based on making money from money alone as opposed to interest-driven transactions. Examples are; Ijarah (Leasing) and Musharakah (Joint venture).

## THE WAY FORWARD

With the rapid development of Islamic Finance especially in non-Muslim countries of the world (i.e Europe and Singapore) there is the need for Nigeria to harness the system's untapped potentials and also for Asset Management firms and financial institutions in country to offer products and services tailored towards Islamic finance in order to attract idle money and grow the Country's economy.

## CONCLUSION

SAMTL is a dynamic organization that evolves with time and taps into new opportunities. We offer Asset Management, trusteeship and advisory services.

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SAMTL KIDS INVESTMENT TRUST

# Skit up your kids for success



Laying a financial foundation for your children’s future can take the weight off the mind. Skit is designed to help set aside funds on a gradual basis to assist parents in building wealth for their children

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### RETURNS AT A GLANCE

Initial deposit of N50,000 plus N10,000 monthly contribution for a period of 5, 10, & 25 years at a glance

TENOR	INTEREST RATE	CONTRIBUTION FOR THE TENOR	ACCRUED INTEREST FOR THE TENOR	TOTAL PRINCIPAL + INTEREST
5 Years	13%	N640,000	N283, 525.54	N923, 525.54
10 Years	13%	N1,240,000	N1,372,495.46	N2,612,495.46
20 Years	13%	N2,440,000	N9,554,017.69	N11,994,017.69



SAMTL OPTIMAL RETIREMENT TRUST

## FEATURES

- Minimum start up contribution of N50,000.00 plus additional minimum annual contribution of N120,000.00 i.e. A minimum monthly contribution of N10,000.00 and other assets at any preferred interval
- Minimum tenor of 5years
- Access to short-term loans for up to 75% of deposit after one year
- Guaranteed return of 13% per annum subject to money market rates
- Payment can be made through cheques, warrants, direct debit, etc. Through Sterling Bank branches.
- Statement of account issued quarterly or bi annually.
- Access to Sterling financial advisory services.
- Opportunity to buy annuity (backed by credible Insurance outfit)
- Opportunity to clients to exercise their discretion on property investment subject to a minimum contribution of up to N350,000.

# Retirement? We've got it all sorted out



### RETURNS AT A GLANCE

Initial deposit of N50,000 plus N10,000 monthly contribution for a period of 5, 10, & 25 years at a glance

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We all dream of the day when we can take life a little bit slower and have the chance to enjoy the things we always wanted to do. With the Sterling Optimal Retirement Trust SORT, individuals can actually achieve this goal. This Trust is directed to help a retiree top his life in retirement, thereby helping him to prepare for a rain day. SORT is largely meant for individuals, bearing in mind that in addition to what employee will do when he retires (or what he has earlier provided for himself), he will have additional support for himself.

With SORT, retirees are the beneficiary, but in case anything happens, then the benefit of the Trust will go to his spouse or children as may be directed. All these arrangements are documented in a legal document called a Trust Deed.

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